

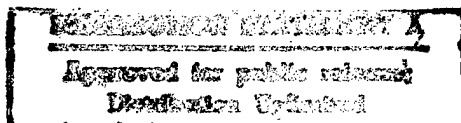
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19 DECEMBER 1986

# China Report

ECONOMIC AFFAIRS



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19 DECEMBER 1986

## CHINA REPORT

### ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

XUE MUQIAO REVIEWS RESTRUCTURING OF ECONOMIC SYSTEM

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC SYSTEMS REFORM] in Chinese No 3, 23 Mar 86 pp 16-20

[Article by Xue Muqiao [5641 2550 2890]: "The Problems and Achievements of Economic Reform"]

[Text] It has been 7 years since the 3d Plenary Session of the 11th CCP Central Committee launched the restructuring of the economic system. The achievements have been outstanding.

The restructuring began in the rural areas where the economic structure was relatively simple. To fully mobilize the peasants' initiative and tap the production potential of the countryside, we boldly broke out of the traditional mold of the "three-level ownership" of the people's commune, in which the production team was the "basic accounting unit;" adopted the output-related system of contracted responsibility, with the family as the unit; encouraged diversified specialized households; and developed township and town enterprises in a range of fields. In commerce, we abolished the monopoly of supply and marketing cooperatives and replaced it with a variety of state-owned, collective, and individual channels, thus broadening market commodity exchange in order to adapt to the development of commodity production. It can be said that the restructuring of the rural economic system has achieved a basic breakthrough and is now surging ahead in the direction of commercialization, specialization, and the application of science. In the future, the major mission is to plan successfully for all-round economic development, taking into account local conditions, consolidate the leadership of the state-owned sector in the rural economy, and apply indirect regulatory mechanisms to continue to strengthen government planning and management in the rural economy.

The restructuring of the urban economic system was slower to get off the ground because of its complexity. Reform here revolves around enlarging the autonomy of state-owned enterprises and turning them into relatively independent and self-managed commodity producers and operators responsible for their own profits and losses so that they would no longer eat off the big rice pot of the state. Nor would their employees continue to do likewise at their expense. This kind of restructuring is very difficult as it involves reforms

in the planning, monetary, financial, commercial, materials circulation, price control, and wage systems. While we have done a lot of work in the above-mentioned areas, we remain in a transitional stage; reform is still essentially an unfinished business for us. Moreover, reforms in the various systems have yet to be properly coordinated. Consequently, apart from a handful of well-managed enterprises that have carried out trial reforms, most have not effected any basic breakthroughs. By and large collective enterprises in cities and townships, which have now been deregulated, have recorded more rapid growth than the thousands of large and medium-sized state-owned enterprises. The latter constitute the mainstay of the national economy. If they stay in a rigid state, not only will they continue to languish, but their leadership and dominance in the national leadership will also be eroded. That is why the 3d Plenary Session of the 12th CCP Central Committee decided to shift the focus of economic work from adjustment to reform and redirect the orientation of reform from the rural to the urban. The central purpose is to transform these thousands of state-owned enterprises into vital, dynamic economic entities that are really functionally autonomous.

The pace of urban economic reform since the 3d Plenary Session of the 12th CCP Central Committee has indeed quickened, ushering in a new phase bursting with life and vigor. Last year industrial output rose at a rapid rate seldom matched in the world and equally rare in China's history, except for the first 3 years after the PRC was founded and during the 3-year Great Leap Forward (which actually led to a steep decline in agricultural and industrial output) in the late 1950's. Price increases have been on the high side, but people are now living much better. The sharp increase in industrial output was caused by the loss of control on the scale of capital investments (which, in turn, was the result of bank credit getting out of hand) and on wage funds. On the one hand, it created unprecedented prosperity in the national economy. On the other hand, it may undo our successful adjustment effort over the past few years to ease the supply of means of production, increase the availability of consumer goods (an important condition for going ahead with structural reform boldly,) and complicate future structural reform. Since the first quarter of 1985, therefore, the State Council has convened several meetings with provincial governors in a determined effort to reverse this lopsided situation. The effort began to pay off by the third quarter of 1985. Having learned from our experience in 1981 when we applied the brakes on the economy too abruptly, we took a "go slow" approach last year and worked hard to keep credit for the whole year within the limit in the plan. In the next 2 years we will do our best to make sure capital spending does not exceed the 1985 level in order to prevent proportionate relations in the nation economy, to which a basic equilibrium has been restored, from going askew again. Should that happen, we will have no choice but to put ourselves through another round of adjustment.

Recall that since the 3d Plenary Session of the 11th CCP Central Committee, we have consistently demanded that the scale of capital spending be reduced. In 1979, the plan to hold down capital investment was not fully carried out because the projects had already started. In 1980, investments in the plan were brought under control, but extra-budgetary investments financed by enterprise funds and bank loans shot up, due to reforms in the monetary and financial management systems, thus again thwarting the national plan. In the



first quarter of 1981, we moved quickly to slow down the economy; consequently, industrial output took a nose dive and heavy industry actually recorded minus growth. Although we gradually relaxed bank lending during the second quarter, capital investments in 1981 as a whole stayed within the limits in the plan and industrial output rose only marginally faster than the projection (4.5 percent), the lowest in 7 years. We paid a heavy price for reining in a runaway economy: a slowdown in industrial output, particularly in heavy industry. But in return we achieved a crude balance between the supply and demand of the means of production in 1982 and a buyer's market appeared in many lines of consumer goods, thereby creating favorable conditions for future development and the restructuring of the economic system. From 1982 through the third quarter of 1984, the scale of capital construction once more exceeded estimates in the plan and wages and bonuses also climbed rather steeply, but since the gains in industrial and agricultural output were much more substantial than what had been projected, no shortages of means of production developed and the supply of market commodities was ample. We had to sell abroad surpluses of consumer goods most essential in daily living, such as grains and cotton fabrics. That explains why the 3d Plenary Session of the 12th CCP Central Committee concluded that then was the most auspicious moment to accelerate the restructuring of the economic system and decided to quicken the pace of urban economic reform. This decision was timely and entirely correct.

In the fourth quarter of 1984, we began reforming the bank credit and enterprise wage systems by expanding the autonomy of localities and enterprises in making use of bank credit to finance development and in carrying out wage reform. In our inexperience, we failed to strengthen macroeconomic control correspondingly as we went in for microeconomic decentralization. The result was a dual loss of control--on bank lending and wage funds. In the four quarter, credit soared 164 percent over a year ago, total wages rose more than 30 percent, and bonuses swelled 100 percent over the same period in 1983, all exceeding by far the growth rate of industrial and agricultural output. The money supply became bloated (partly due to a bumper harvest and the tremendous increase in procurements) while foreign exchange reserves plunged. The CCP Central Committee and the State Council discovered this problem in time and called several provincial governors' meetings to correct the overheating phenomenon in production and projects. However, it takes time to cut back on development projects and wages once raised cannot be readily lowered. In fact, they continued to go up last year because of wage reforms. At the same time, acute shortages of means of production reappeared, accompanied by sharp increases in the free-market prices of such means of production as steel. The supply of consumer goods did not come under much pressure, but because of a rapidly rising purchasing power and excessive commodity price increases, some products which had been selling well declined in quality. Apart from stiffening market control, the basic solution is to curb the excesses of purchasing power expansion (consumption funds). In the next 2 years, we should make the intensification of macroeconomic control the focus of reform and, even as we do so, further deregulate the microeconomy (particularly the thousands of large and medium-sized state-owned enterprises).

Examining new issues from an outdated viewpoint, some comrades argue that we have gone too far in our reform over the past few years, especially last year. They attribute price spirals affecting means of production to free marketing and propose a return to the centralized allocation of means of production. More than 30 years of experience tells us that the basic reason for the gap between the supply and demand of means of production is the overly large scale of capital construction. In the past, when all capital construction was dependent on treasury funding, it might be relatively easy to allocate means of production in a centralized way. (Even then the system was plagued by a host of maladies well known to all.) Now treasury appropriations in the budget account for only one third of capital investments, while local and enterprise funds constitute as much as two thirds of capital investments outside the plan. Should we revive the old system of the centralized allocation of means of production and abolish free marketing, most of the development projects outside the plan and the production of small and medium-sized local enterprises will grind to a halt, causing inestimable losses. Coal was the first to go free marketing and, two years ago, the free-market prices of coal fell slightly because of an increase in coal production outside the plan. Today, the most acute shortage occurs in steel, but since everybody has been stockpiling steel frantically, it is also in steel that we find the worst overstocking problems. Centralized allocation cannot increase the supply of steel. (On the contrary, it may in fact depress the output of small local steel plants.) The only way to ease steel supply and prevent free-market prices from continuing to rise and even induce them to drop somewhat is to set up steel markets extensively to smooth its circulation and attract steel kept in stock back onto the market. Needless to say, the most basic thing to do to bring down the free prices of steel is to reduce the scale of capital building, which we did in 1981. As a result, steel imports fell markedly that year and in 1982, as did the amount of steel in stock. It is only under these conditions that steel prices can stabilize.

In a bold experiment, the government last year took the initiative to lift price control on non-staple foodstuffs and adopted market regulation involving the participation of state-owned enterprises. Many foreign experts have pointed out that the success of economic reform in China will depend on whether we can adjust unreasonable prices. In the reform experience of various Eastern European nations, the most risky part of price reform is deregulating the prices of non-staple foodstuffs. Once prices were deregulated, they shot up 100 to 300 percent, resulting in social repercussions. We tackled this problem quite early, adjusting the prices of non-staple foodstuffs back in 1979, which proved instrumental in cushioning the effects of the present round of price decontrol for non-staple foodstuffs. In 1979 and 1985, the government twice issued cash payments to workers to cover the price increases in non-staple foodstuffs and also raised their wages, thus avoiding a drop in the living standards of the bulk of urban residents because non-staple foodstuffs had gotten more expensive. The result of price decontrol is more supplies of non-staple foodstuffs, which will continue in the next few years. And increased supplies are the most basic guarantee for rising living standards. Owing to price increases affecting non-staple foodstuffs and certain articles of daily use, which occurred due to a vastly expanded purchasing power, the general level of prices may go up more than 10 percent in 1985, a rare occurrence in China. Consequently, complaints

have been widespread. In the opinion of many foreign experts, however, the fact that we succeeded in lifting price control on non-staple foodstuffs is a gratifying achievement.

Apart from price reform, 1985 also saw wage reform, which substantially increased the wages of workers who had had to shoulder progressively heavier responsibilities over the years without corresponding raises in pay, and which replaced the egalitarianism in the wage system with the principle of distribution according to work. Because of the sudden loss of control on wage funds in 1984, we had no choice but to prevent them from overexpanding. Thus we went in for limited reform, as we did with regard to prices, and did not try to completely overhaul the system. Irrationalities in its price and wage systems are the two "cancers" in China's economic system, affecting its healthy growth. Last year we took a gratifying move on both the wage and price fronts that paved the way for further reform in the future. But for the dual loss of control--on bank credit and wage demands--in 1984, which somewhat impeded the progress of wage and price reforms, particularly the price control system, we would have taken wider strides. In the next couple of years, instead of hesitating, we should accelerate microeconomic deregulation by strengthening macroeconomic control.

Over the past few years, we have deregulated not only the rural economy, but also the collective urban economy and a large portion of small state-owned enterprises. However, the thousands of large and medium-sized state-owned enterprises that make up the backbone of the national economy remain problem-ridden. They have noticeably fallen behind the urban collective economy in growth, not to mention the rural collective economy. At present the urban and rural collective economies are developing by leaps and bounds. This is a cause for satisfaction and an important factor for the economic prosperity in cities and countryside. Nevertheless, should the lag of the state-owned economy continue for an extended period of time, it would militate against its consolidating its leadership of the national economy. The solution is not to hem in the collective and individual economies, but to deregulate the state-owned enterprises. Whether it is in funds, machinery, equipment, or technical and managerial personnel, state-owned enterprises are far superior to collective and individual economies. Armed with the necessary autonomy, they will be fully capable of competing with the latter and keeping abreast of them. This will not only result in a much more balanced national economy, but will also consolidate the leadership of the state-owned economy. Its deregulation should therefore be a crucial part of our economic work.

To further expedite the restructuring of the city-based economic system, I believe we need to address the following issues: First, continue to reform the planning, fiscal, financial, materials, price, and labor wage systems so that they are coordinated with one another and ensure that the decision to expand the autonomy of large and medium-sized state-owned enterprises is successfully implemented. As far as the planning system is concerned, we are now gradually decentralizing whatever planning authority that should be decentralized. At the present time, there has been little coordination with other reforms. Turning to the monetary system, we have taken the second step toward replacing profits with taxes. But since prices have not been totally adjusted, we cannot but continue to rely on an

onerous regulation tax to reduce the unequal distribution of burdens and benefits. Inevitably efficient enterprises will continue to be penalized. Right now state-owned enterprises are heavily taxed, collective enterprises, particularly township and town enterprises, lightly taxed, and the individual economy, essentially untaxed. This is a major reason why thousands of large and medium-sized state-owned enterprises have failed to grow appreciably. In the control of goods and materials, we continue to stress administrative allocation and neglect market exchange. Wide gaps remain between planned allocation prices and free-market prices. No effort has been made to set up on an extensive scale exchange markets for means of production to facilitate their circulation. Some investments and foreign exchange and most allocated materials are still controlled by relevant departments in the central government. Enterprises have been given more autonomy. However, out of fear that they may not be able to get hold of the necessary investments, foreign exchange, and allocated materials, enterprises have not embraced autonomy, preferring instead to continue to "eat from the big rice pot" of the state. Because of the dual loss of control, we were forced to go slow on wage and price reforms, which, in turn, has hampered the effort by the state-run economy to improve the standards of management in accordance with objective economic principles.

Second, in our inexperience, we failed to step up macroeconomic control in a way commensurate with microeconomic vitalization. Following the restructuring of the economic system, two thirds of our fixed assets investments came from bank loans and the funds of localities and enterprises (which, too, must go through banks.) Thus banks have become the most vital tool of macroeconomic control. We have set up a central bank to control the money supply and bank credit as a means of preventing inflation. At a time when the central bank was not yet working perfectly, specialized banks scrambled to make the most loans in the fourth quarter of 1984, most of which went to finance capital construction. In 1984, we began to put the squeeze on credit and many enterprises, caught without circulating funds, found themselves in a beleaguered state, forcing us to apply the brakes on the economy suddenly. While controlling fixed assets investments stringently, we must also ensure normal agricultural and industrial output and normal commodity circulation. The central government has demanded that the scale of capital building in the next 2 years be strictly limited and the growth of consumption funds be appropriately restricted to prevent the recurrence of imbalances in the national economy. This is imperative. We must strive to improve the methods of macroeconomic control.

The 12th National Party Congress put forward the magnificent goal of quadrupling agricultural and industrial output in 20 years, noting that the growth rate should be a little more moderate in the first 10 years to set the stage for a prosperous and strong economy in the next 10 years. Over the past 4 years, we achieved a growth rate of about 8 percent in industrial and agricultural output and over 10 percent in industrial output, significantly higher than the rate (7.2 percent) the quadrupling effort requires. Because of the loss of macroeconomic control, industrial output rose more than 20 percent in the first 3 quarters in 1985. Township and town enterprises along the southeastern coast recorded a growth rate between 30 to 50 percent in 1984 and an even higher rate in 1985. Less developed areas in the west grew

restless and itched to catch up with the east. It should be recognized that the economy cannot stay overheated for long. We should gradually lower the super growth rate to a normal level.

Third, looking even deeper, we should point out the mediocre quality of our economic management cadres, a fact ill-suited to the policy of opening China to the outside and internal economic invigoration. Many localities, departments, and enterprises push themselves to the limit. This is perfectly understandable. But the overall result will be an excess of total demand over total supply. Subjective wishes are not to be realized. Moreover, it will lead to a certain measure of confusion in the economic order. There should be extensive propaganda and education on this point in the days ahead. Leading cadres at many of our large and medium-sized state-owned enterprises were used to eating off the big rice pot and reluctant to take risks and innovate. Now that a batch of young cadres has been installed, enterprises have shown a little more drive. But in their inexperience, some people may act recklessly and blindly. If they fail, they will still look to the government to bail them out. The so-called "assuming responsibility for one's profits and losses" actually means that enterprises assume responsibility for their profits only, not losses. Then there are certain cadres who, autonomy in hand, make no effort to reform internal operations and management or open up foreign markets. Instead, they work hard to take advantage of loopholes in the financial system, pursue personal interests at public expense, and jack up prices at will to damage consumer interests. In the long haul, therefore, the all-round restructuring of the economic system also requires us to devote major efforts to improving the quality of economic cadres at all levels. Certainly this is not something that can be done in 2 or 3 years. But that should not stop us from going ahead. While stepping up cadre selection and training, we must at the same time let them enter the fray of the real world and receive correct guidance from leading organizations.

Since the all-round restructuring of the economic system necessarily faces many difficulties, a handful of comrades have shown skepticism about reform in the past year. Some individuals have even dismissed our reform as a failure. China's present economic situation has also been the subject of many an economic discussion abroad, whose general tone is more optimistic. In early September 1985, the China Economic Restructuring Research Society, the China Academy of Social Sciences, and the World Bank jointly convened an "international seminar on macroeconomic management" on board the cruise ship, "Bashan," at Sanxia along Changjiang. Economists from Western and Eastern European nations were invited to take part. The seminar began positively: Premier Zhao Ziyang met with the experts in person and briefed them frankly about the achievements and problems of economic reform in China. During their week-long discussions, the experts and scholars unanimously praised China's reform achievements and agreed that the economic difficulties it has faced recently are inevitable to a certain extent in the course of reform; just about every country experiences similar problems during extensive reform. They pointed out the ever-present tendency for the economy in socialist nations to overheat and for investment famine to exist at every level in a state-owned economy, a tendency intensified by overly high economic projections. This frequently results in inflationary pressures, material shortages, and unbalanced growth. In handling the present situation, we

should be aware of the basic reasons that cause "overheating" and also note that certain administrative measures, while unavoidable in the short run, should not be allowed to get in the way of solving the problems.

Despite the fact that they came from different nations and systems and have widely divergent experiences, ten scholars, authorities in their own nations and even the world, share a common outlook on some of the economic problems facing China today. This should be regarded as the most notable feature of the seminar. Scholars from Eastern European nations even candidly admitted that the problems they came across in their reform were much more serious than ours, which, however, failed to undermine their resolve. Apart from the U.S., all Western nations encountered serious economic problems, including materials shortages, after the war, to which they also responded with rationing, subsidies, and similar administrative measures, so they had personal experience in the difficulties that arise when such measures are abolished.

Experts from various nations put forward many valuable suggestions regarding macroeconomic management, financial policy, wage control, the control of the money supply and credit, financial market, etc., which should serve as our reference. Chinese scholars in attendance, and perhaps the foreign experts as well, walked away from the seminar with a heightened confidence in economic reform.

The road is bumpy but the future is bright. If we persevere, we will certainly score a triumph of world historical significance. This is our conclusion.

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NATIONAL POLICY AND ISSUES

FURTHER REFORM OF COMMERCE URGED

Beijing JINGJIXUE DONGTAI [TRENDS IN ECONOMICS] in Chinese No 5, 5 May 86  
pp 4-5

[Article by Zuo Mu [0146 3668]: "Create the Conditions and Further Reform Commerce"]

[Text] Over the last 2 years, reform of China's commercial system has made significant progress, but there are many difficulties. If some relaxation is allowed in certain areas the possibility of reverting to where we started still exists, but if we can continue to carry out reforms on the existing foundation, then we shall certainly achieve new breakthroughs. I fully endorse the view expressed in a recent conversation by a leading comrade on the State Council who said: "We have every reason to advance on the crest of victory, and we don't have even half a reason to vacillate or retreat."

To pursue commercial reform, we must now focus on solving the following problems:

I. The problem of decontrolling small commercial enterprises. In its Document No 92 of 1984, the State Council stipulated that small, retail commercial units doing independent accounting in Beijing, Tianjin, and Shanghai having annual profits of less than 200,000 yuan in provincial capitals and the city of Chongqing, and those with annual profits under 80,000 yuan in other cities may be converted to state ownership and be operated collectively, paying taxes according to regulations and taking responsibility for profit and loss; or they may be converted directly to collective ownership, or leased to managers and be managed by individuals. In the last few years, wherever this decision has been implemented, the vast majority of enterprises have achieved marked results. The response is universal: since decontrol, small commercial enterprises are staying open longer hours, increasing the variety of goods handled, expanding the scope of their operations, selling more, improving their service, and clearly increasing the amount of taxes paid as well as the incomes of staff and workers. The best results have come from those enterprises leased to commercial staff-and-worker collectives for operation. I did a survey of this in Beijing. According to statistics from 22 small enterprises leased to staff-and-worker collectives for operation in the Chongwen District, in 1985 sales increased by 38 percent

over the previous year, annual profits increased more than 10-fold, and taxes paid increased by 52 percent; for 1985, after leasing, average staff-and-worker income was 1,582 yuan, a 29-percent increase over 1984. In the Xuanwu District in May of 1985, the Nonstaple Foods Co leased three small enterprises; in the second half of the year income from sales increased by 27 percent over the same period in the previous year, with the 1 290-yuan loss suffered in the previous half-year being turned into a profit of 7,468 yuan.

However, progress has been slow in decontrolling small commercial enterprises. According to statistics, as of October 1985 the country had actually decontrolled 64,000 small enterprises, which is 75 percent of the 85,000 targeted for decontrol; progress is very uneven. In Beijing decontrolled small enterprises account for only 13 percent of those to be decontrolled. After the bonus tax is collected from the collective enterprise, there is a tendency to revert back. The main reasons for this are as follows:

1. Leasing costs are too high. There are no standards for leasing costs, which generally include: depreciation on fixed assets, interest on circulating funds, planning funds for staff-and-worker labor insurance, and the lease payment. The costliest is the lease proper. The lessors require that the enterprise pay the lease according to the base profit originally turned over to the state; excess profits revert to the lessee. In reality, since the lessors are no longer responsible for the enterprise's profit and loss, and their funds have already been replenished, how can they require the leased enterprise to pay the lease according to all profits paid in the previous year? Considering the factor of differential land rents, the lease payment may be part of the total profits turned over the previous year, or an average over several years, but generally all of the previous year's profits turned in cannot be used as the base. Except under special circumstances, it is in particular impossible to require that the lease payment exceed the total profits paid in by the enterprise in a previous year or an annual average for several previous years.

2. The policy of keeping profits has not been implemented. A lease is not the same as a contract. The lessor is entitled to profits after taxes. The lease contract also stipulates this, but in fact the leased enterprise's profits after paying taxes and the lease are all invested to expand operations, and nothing is distributed to the lessors. If the operation is a partnership, profits should be distributed first to the lessors, and then resources are pooled and applied to expanding the enterprise's reproduction. If collective leasing is used, then a certain proportion of the funds, according to the provisions, should be invested in expanding reproduction, but it should be clearly stipulated that the lessee has a "right of collective possession" to the newly added funds. Because the policy of keeping profits has not been implemented, the staff-and-worker lessees do not realize that the profits of the leased enterprise belong to them, nor do they know that the policy has changed; they therefore pay close attention to wages and bonuses. After bonus taxes have been levied, they feel there is no longer any hope of a higher income, and so some people demand out of the lease and go back to eating out of the communal rice pot. Enterprises that had been thinking about leasing halt all their plans. There is, therefore, a pressing need to make the distribution policy for leased or collectively run enterprises a reality.



There may be a loophole here, which is that if the leasing staff and workers distribute profits after taxes as consumption funds, the enterprise must pay a wage tax. But if the profits are first treated as production funds and then after a while converted to consumption funds, or are budgeted by the lessors, doesn't this leave a loophole? In fact this sort of arbitrary withdrawal of funds has already occurred, and this is certainly a problem. It would, therefore, seem necessary to consider that the assets already created by leased enterprises and their own circulating funds ought to be counted and monitored. In order to encourage investment and avoid excessive distribution of consumption funds, a separate tax should be levied on production funds withdrawn from the enterprise by the lessors and put to another use. The rate must not be lower than the wage tax.

II. China's large and medium commercial enterprises lack vigor and are inefficient; the main problem is the lack of a suitable separation between government and enterprise. The responsible state agencies have used administrative companies to block the autonomy that should be given to enterprises. For example, according to data on the nonstaple foodstuffs system in a certain district in Beijing, large and medium commercial enterprises currently turn over to an administrative company 80 percent of their profits after taxes and 90 percent of their transformation and renewal funds. The enterprises are far from constituting autonomously operating economic entities taking responsibility for profit and loss.

In addition to certain ideological problems, the causes behind this situation are primarily the absence of objective conditions for reform.

1. Under the current price system, the wide disparity in profit levels among commercial enterprises must be adjusted by the responsible department or by administrative company by regulating the distribution of earnings. In order to proceed with reform, price controls must be further relaxed, and consideration may be given to adding a new type of tax especially for decontrolled enterprises, and using the tax revenue to make adjustments as a replacement for administrative adjustments.

2. Planning, industrial and commercial management, pricing, tax-collecting, and statistical departments are currently incapable of dealing with the plethora of enterprises, and they are forced to use administrative companies as intermediaries. Therefore, during reform the capacity of the above departments for indirect management and regulation should be strengthened as quickly as possible so that they can deal directly with enterprises. Consideration may be given to first transferring the relevant personnel from the responsible departments and administrative companies among the aforementioned departments to work jointly, and then later gradually solving personnel and structural problems.

Of course, separating government and enterprise does not mean that administrative control should be eliminated. Rather, precisely because government and enterprise are separated, commerce is invigorated, and there is even greater need for administrative control over the market. Considering the small scale of commercial enterprises, and their many outlets, large cities may also wish to establish intermediate administrative structures between city and enterprise to serve as a connecting link between the two. But none of

these administrative structures should substitute for the functions of the economic entity; this must be clearly understood.

3. Labor insurance has not been socialized, and many enterprises making small profits are unable to bear the burden of labor insurance expenditures and have strong reservations about accepting responsibility for profit and loss. Therefore close attention must be paid to socializing urban staff-and-worker labor insurance, and such interim measures as "citywide planning" may be implemented.

4. The quality of cadres in many large and medium commercial enterprises is not ideal. An important reason for this is that administratively capable people keep promoting one another and transferring each other over to the administrative companies. For this reason, adjustments and training must be carried out, and large and medium enterprises must be provided with the conditions for normal operations, so that the personnel are well trained and the enterprises are decontrolled.

In addition, an administrative contract responsibility system should be widely established within the enterprises.

III. Recently comrades in theoretical circles and in actual working departments have proposed that as commercial services are developed there is a need to augment services to the secondary levels of commercial enterprises themselves. I believe this view should be given serious consideration. As circulation is invigorated, if we are to emphasize reducing links and encourage industry and commerce to deal with one another directly, then we should also pay attention to exploiting the effect of middlemen; as control and supervision are strengthened, we should broadly develop commercial agents, information and consulting, lawyer arbitration, advertising, insurance, etc. If these "software" services cannot keep up, it will be difficult to invigorate commercial circulation, of if invigoration is achieved, it will be easily muddled.

Portfolio companies must be specifically analyzed and not rejected out of hand. Many cities have established state-run industrial product trading companies which have achieved success and experience, but recently industrial and commercial controls have tended to become more stringent; it is to be hoped that a distinction will be made between what is legal and what is not and companies will be treated accordingly. In short, policies of encouragement and support must be adopted.

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CSO: 4006/61

NATIONAL POLICY AND ISSUES

ECONOMIC LAWS, REFORM SINCE 1979 DISCUSSED

OW262032 Beijing XINHUA in English 1617 GMT 26 Nov 86

[Text] Hong Kong, November 26 (XINHUA)—China's economic laws and regulations have promoted rural economic development, inflow of overseas investment, expansion of the private economic sector and stimulated innovation and creation.

This was said at a seminar on foreign economic and trade laws of China, where Gu Ming, director general of the research center for economic legislation under the State Council, also said: "China has, since 1979, enacted 340 economic laws and statutes covering Sino-foreign joint ventures, foreign-funded businesses, economic contracts, patents, food hygiene, medicine, forestry and grasslands, and they make up 80 percent of the total legislation of the period."

The seminar today was jointly organized by the Hong Kong Chinese General Chamber of Commerce and the China Patent Agency (Hong Kong) Ltd.

"Judiciary, jurisprudential research and education of economic laws have made headway as well," Gu Ming said.

"For example," he said, "courts at all levels have restored, or established economic tribunals, which were banned during the cultural revolution in 1966-1976."

In the first nine months this year, the 3,000 economic tribunals handled 245,470 cases of contract disputes and other economic affairs, six percent more than the total in 1985. More than 200 institutions of higher education are studying or offering courses on economic laws while television and other mass media lending a hand in disseminating legal knowledge nationwide, Gu said.

For the function of economic laws, Gu first noted they have guaranteed the implementation of flexible rural policies China has adopted since 1979. Without regulations and provisions worked out by the State Council, rural reform would hardly have materialized, he added.

Second, since the country published its law on Sino-foreign joint ventures in July 1979, there are more than 7,000 joint ventures, cooperative businesses and enterprises operated with exclusively foreign capital. Foreign investment in 1985 alone exceeded the total in the previous five years, though complaints sounded louder last year.

Third, with principles on individual economy promulgated since 1981, the private sector boasted employment figures of 17 million by the end of 1985, compared to 150,000 in 1978, Gu said.

The patent law, which was held as a product of capitalism and took five years to solve the controversy whether it will do harm or good to socialism, has mobilized the creativity of the Chinese people so markedly that the patent bureau received 18,170 applications in the first year since the law came into effect in April last year. In the world, only 14 countries each receive more than 10,000 applications per year.

He also disclosed that China is drafting laws on Sino-foreign cooperative businesses which account for nearly 60 percent of the enterprises involved with foreign capital, on foreign trade, copyright, insurance, maritime trade, bookkeeping notes and company law while the customs law and bankruptcy law are under discussion for approval.

/8309

CSO: 4020/51

NATIONAL POLICY AND ISSUES

TRANSFERRING TECHNOLOGICAL ACHIEVEMENTS TO PRODUCTION

Beijing GUANGMING RIBAO in Chinese 3 Oct 86 p 2

[Article by Ye Dan [0673 0030], Liu Zhong [0491 0112], Yu Xiaogang [0205 2556 6921], Peng Ying [1756 4481], and Yu Jiwen [5713 2111 2429]: "Bridging the Gap between Research and Production"]

[Text] Editor's note: Under the leadership of the State Science and Technology Commission, the China Science and Technology Promotion and Development Research Center successively conducted three nationwide random surveys revolving around the transfer of technological achievements in five industries--metallurgical, chemical, machine-building, light, and electronic. On the basis of the surveys, it analyzed the general situation in technology transfer at present and has prepared a report. We publish excerpts from the report today in the hope that the transfer of technological achievements to production will be further stimulated.

As the restructuring of the economic and scientific and technological systems steadily became more thoroughgoing, the transfer of technical achievements to production has begun to pay off. The surveys show that since 1984, the ways that scientific and technological work can serve economic growth have become increasingly clear and the transfer rate of the technological achievements of research institutions has been rising year after year. In 1984, the transfer rate (the number of achievements transferred as a percentage of the number of completed scientific and technological projects) averaged 41.4 percent, up 14.4 percent over 1983. The channels of transfer have been diversified, each with its own characteristics. Feedback from enterprises shows that technological achievements are now generally recognized by the public as a commodity. At present, transfer channels such as the technical market, departments in charge, integrated scientific research and production organizations, and middlemen are all playing a variety of roles. After adopting technological achievements, enterprises have experienced markedly better economic results. According to the data, the ratio of the costs of purchasing an achievement to the gain in profits and taxes after the application of the achievement is 1 to 6, while that of the costs of purchasing an achievement to the increase in output value is 1 to 24.

The surveys demonstrate that to further expedite the transfer of technological achievements to production, we must solve these problems:

According to figures from the State Economic Commission, only 15 percent of the nation's large and medium-sized enterprises have been vitalized, while 65 percent have experienced some changes but still lack vigor, and 20 percent remain largely stagnant. The major difficulty facing large and medium-sized enterprises today are an excess of tasks mandated by the command plan, rising production costs due to soaring energy and raw material prices, overly high enterprise regulation taxes, and the low percentage of profits retained, (in most enterprises, the amount retained ranges from 300 to 400 yuan per person and is as low as 100 yuan in a few cases,) which means little money for enterprise self-transformation and self-development.

Of the 100 enterprises surveyed in the five industries, 48 percent cannot produce enough to keep up with demand, 38 percent balance output with demand, and only 11 percent suffer from sluggish sales. This situation enables the vast majority of enterprises to survive and make a profit even without technological innovation.

Chinese enterprises are acutely short of qualified technical personnel. According to the surveys, the number of technical personnel as a percentage of the total number of employees in an enterprises is 4.1 percent in the metallurgical industry, 5 percent in the chemical industry, 6.3 percent in the machine-building industry, 3 percent in light industry, and 8.4 percent in electronics. The number of people directly involved in research and development is even smaller. There are 150,000 scientific and technological personnel at non-independent research institutions nationwide. Assuming that there are 400,000 industrial enterprises above the county level across the nation, this means there is just one technical worker for every three enterprises, and assuming that we have 68 million workers in the nation's industrial and transportation enterprises, only 22 out of every 10,000 workers are technicians. In addition, these non-independent scientific research organizations are usually deficient in research and development tools and backwardly equipped for research.

Traditionally many research institutions in the nation have remained outside the orbit of enterprises, resulting in a divorce between science and technology and the economy, which gives rise to a host of shortcomings. First, research institutions, knowing little about market demand and the state of production technology in enterprises, fail to respond to the needs of economic development flexibly. Second, the fortunes of research institutions are not tied to those of enterprises as they have no common interests. Third, limited by their own research conditions, research organizations often provide defective technology; sometimes production tests are not done or the necessary engineering designs are missing, with the result that the technology is not directly applicable to production. According to the random surveys, 7.74 percent of large enterprises rate the standard of technology currently available from research institutions as "mediocre," 19.6 percent consider it "not high," and only 3 percent regard it as "quite high." The corresponding figures for small and medium-sized enterprises are 59, 28.2, and 12.8 percent, respectively. Also, 75.9 percent of large enterprises and 71.1 percent of

small and medium-sized enterprises express reservations about accepting the technology of the nation's research institutions.

For both economic and technical reasons, enterprises must largely rely on themselves when it comes to technology, despite their small scientific research contingents. Statistically, 63 percent of the technologies used by large enterprises come from their own research, 19.8 percent are developed jointly with research institutions (including institutions of higher education,) while merely 6.4 percent are obtained directly from research institutions (including institutions of higher education,) which is even less than the percentage of imported technology (7.5 percent). Although 75.2 percent of the technological achievements transferred by research institutions are channeled toward small and medium-sized enterprises, as much as 50.7 percent of the technologies used by those enterprises are their own, with scientific research institutions providing just 25.5 percent.

Since enterprises lack qualified technical personnel and research institutions have only a modest ability to develop and modernize industrial technology, inter-enterprises technological diffusion has assumed additional significance. In the surveys, 58 percent of the enterprises express willingness to obtain technology from other concerns in the same line of business. However, this kind of exchange remains fraught with problems, eg., deep-seated departmentalism and localism and, in particular, the lack of specialized and socialized cooperation between enterprises.

In many cases, technology transfer fails because the transferrer and the transferee do not see eye to eye on responsibilities, rights, and interests. A large number of enterprises complain that research institutions are oriented toward "commerce," not production, and do not have a sense of responsibility for sharing risks with enterprises. Endless disputes often arise over the honoring and overseeing of a contract or the ownership of an achievement. Also there is an absence of relevant laws, regulations, policies, and necessary arbitration organs in the field of technology. Even more controversial is the pricing of technology: 38 percent of large enterprises and 62 percent of small and medium-sized enterprises consider current transfer prices "too high," whereas 90 percent of scientific research institutions believe they are "too low."

Given that the external environment and internal conditions of enterprises have not improved, we believe scientific work should seriously consider these points. The key to economic growth and technological progress lies with our ability to effectively marry scientific and technological prowess with large and medium-sized key enterprises in order to enhance the nation's capacity to modernize industrial technology, and, aided by horizontal economic linkages and a network of specialized cooperation, produce a ripple effect stimulating the development of the vast numbers of small and medium-sized enterprises. Therefore, the thrust of research and development for a long time to come should be to help large and medium-sized key enterprises achieve technological transformation; develop technology; absorb, assimilate, and innovate on imported technology; export and earn foreign exchange. Enterprise vitalization is central to the entire restructuring of the economic system and is a basic prerequisite for the flourishing of China's science and technology.

Moreover, consideration should be given to the difficulties faced by enterprises today in terms of fund and technology and to the fact that the union between scientific research and production has only just begun. Today, even as they take practical measures to speed up technological progress at enterprises, those in scientific and technological work should consider the overall national economic interests their top priority and actively support enterprise vitalization in technical matters. It would be inappropriate for research institutions to pursue their own economic interests exclusively.

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CSO: 4006/103



NATIONAL POLICY AND ISSUES

PRC TO IMPROVE ARBITRATION SYSTEM, PROCEDURES

HK280316 Beijing CHINA DAILY in English 28 Nov 86 p 1

[By staff reporter Wang Gangyi]

[Text] China is making new efforts to improve its arbitration system to cope with an increasing number of disputes between Chinese and foreign businessmen.

Cui Bingquan, deputy secretary-general of the Economic and Trade Arbitration Commission, said the efforts include the country's decision to join the United Nations' Convention on the Recognition and Enforcement of Foreign Arbitral Awards and a revision of China's arbitration procedures.

The decision to join the convention is under examination by the Standing Committee of the National People's Congress, currently in session in Beijing.

In making the proposal, Chinese Premier Zhao Ziyang said that joining the convention is a necessary part of China's policy of opening to the outside world. He said it will "be beneficial to the development of the country's economic and trade relations with foreign countries."

In his explanation of the proposal to the committee yesterday morning, Vice-foreign Minister Zhu Qizhen pointed out that China's joining the convention would ensure enforcement of an arbitration award to the Chinese if it becomes necessary to seek enforcement in the courts of a nation which is party to the convention.

He said it also would ease the concerns of foreign investors and businessmen who doubt that awards in their favour by foreign courts would be enforced in China.

The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, generally known as the 1958 New York Convention, was signed by 45 countries at the International Trade Arbitration Conference which was held on June 19, 1958, under UN auspices. A total of 71 countries have signed the agreement to date.

Its main purpose is to unify and simplify domestic legal procedures of the member states in executing arbitration, in order to benefit the development of international economic and trade cooperation.

Cui told CHINA DAILY that with the adoption of new economic policies in 1979, trade disputes involving foreign parties had increased sharply.

At the moment, he said, the Foreign Economic and Trade Arbitration Commission is conducting hearings on 90 cases involving several million U.S. dollars. This is a large increase in both categories compared with last year.

However, Cui noted that the figure represents only a very small portion of actual disputes in China, since most parties are inclined to solve arguments among themselves.

"Our purpose is to protect the rights and interests of the clients whether they are Chinese or foreign companies," he said.

Cui disclosed that the commission was considering inviting foreign arbitrators to work for it in order to further guarantee the impartiality of its arbitration.

The commission also plans to make technical changes in its arbitration procedures to bring them up to international standards, he added. He did not elaborate on what the changes would be.

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CSO: 4020/51

PROVINCIAL AFFAIRS

BRIEFS

SICHUAN'S ECONOMIC DEVELOPMENT--Beijing, 20 Nov (XINHUA)--Sichuan Province has built and upgraded 1,300 kilometers of highways in the past 20 months to boost the economy in mountainous areas, the PEOPLES DAILY reported today. According to the report, "economic development in Sichuan Province, a hilly region in southwest China, has been hindered by inconvenient transportation. New highways now link Sichuan with Hubei, Hunan, Shaanxi, and Yunnan Provinces, and boosted economic contacts," the paper said, adding that it is estimated the new highways will help obtain economic increases of 70 million yuan (U.S. \$19 million) every year. Due to the poor transportation lines, Gongxian County in the southern part of the province had great difficulty in marketing its products, but since it widened three of its highways, the county has sold 31 percent more coal last year. All of its tobacco was shipped within one month. By selling bamboo to Shaanxi Province, two townships in north Sichuan's Nanjiang County have earned 82,000 yuan (U.S. \$22,160) since the highway was paved two months ago. [Text] [Beijing XINHUA in English 0711 GMT 20 Nov 86 OW] /9738

CSO: 4020/49

ECONOMIC DEVELOPMENT ZONES

DISCOUNTING, ACCEPTANCE OF BILLS IN SHANGHAI AREA

Shanghai WEN HUI BAO in Chinese 7 Aug 86 p 1

[By reporter Xia Zhenfei [1115 7201 7204]: "Breakthrough by Shanghai's Industrial and Commercial Banking System in Banking Reform; Acceptance and Discounting Carried Out of Drafts Regardless of Provincial and Municipal Boundaries; Officially To Start 1 October, This Will Open New Routes of Horizontal Fund Accommodations"]

[Text] The system of industrial and commercial banks in the Shanghai economic zone will inject a new "lubricant" into the economic development: the acceptance and discounting of drafts regardless of provincial and municipal boundaries. This will open a new route for horizontal financial accommodations, assist in invigorating the business of enterprises, and speed up fund turnover. It indicates a breakthrough progress, achieved by the industrial and commercial banking system in the Shanghai economic zone.

The presidents of industrial and commercial banks in the Shanghai economic zone, comprising areas of four provinces and one municipality, recently met in Jinhua and decided on provisional rules for the acceptance and discounting of drafts, signing an agreement that will officially become effective on 1 October.

The acceptance and discounting of drafts is a traditional tool of settlement and credit, internationally in universal use. It has been engendered in the processes of commodity production and exchanges, and developed following the emergence of commercial credit. When the new China was established, as a consequence of instituting a strict planned economy at that time, all credit was concentrated in the banks, every type of commercial credit was forbidden, the business of accepting drafts was interrupted, and the business of discounting was, therefore, also stopped. In the last few years, as the commodity economy was developing and the reform of the economic system in the cities was intensified, reform of the banks became imperative. The industrial and commercial banks in certain provinces and cities of the Shanghai economic zone resumed, on trial, the business of accepting and discounting drafts. When commodities were exchanged between units according to purchase-sale contracts with deferred payment terms, the documentary evidence that was drawn up to signify the relations between creditor and debtor was the commercial draft, and those accepted by a bank were banker's acceptances. If the payee needs money

he may present the accepted draft to his bank and request discounting. After checking the document according to regulations, the bank may then discount the draft. By these transactions, the industrial and commercial banks of Shanghai alone handled over 8,000 cases in a little over 5 years; the amount involved exceeded 900 million yuan. Practice has proven, that these transactions play an inestimably valuable positive role in promoting economic development:

The system is beneficial in the documentation of commercial credit and in the establishment of a new settlement procedure, as well as in strengthening credit management. In the past, credit between enterprises, in the form of installment payments or extended payment terms, did not use any documentary evidence or particular procedures. It frequently happened that when the indebtedness was incurred, everything was like "beautiful flowers and wonderful peaches," but when the time for payment came, there were "doors difficult to enter, and openings that would not open," or "1,000 years of never denying owing the money, but in 10,000 years still not having it paid back," so that the selling unit would have no guarantee of receiving payment. Now, the commercial draft contains clear provisions as to the date of settlement and the penalty for not paying on due date. This induces the debtor unit to arrange funds in a rational way to effect payment, and the payee unit is ensured of receiving punctual payment, while the banks, through acceptance and discounting, assist the enterprises in fund management.

The system is also beneficial in promoting horizontal economic linkages. The Shanghai Inland Navigation Co had old cement barges, which it urgently wanted to sell, to buy new boats, because the departments in charge of navigation would not allow cement barges on the Huangpu River. Tianchang County in Anhui Province needed six boats, but had no money, and would have to wait for profits from operating the new boats to pay for them. After negotiations between the banks of the two parties, a draft acceptance and discounting took place. As a result, the boats in question were in operation for only 1 year, when the Tianchang County not only settled the draft, but also had gained a profit of 340,000 yuan.

The system is also beneficial in providing short-term loans and in supporting production and circulation. In the first half of this year, the Shanghai Metal Materials Co bought one lot of steel ingots from the Baoshan Iron and Steel Complex at a price of 140 million yuan. The Metals Co had to entrust a rolling mill with the processing of the steel ingots into steel products, before it could sell the material to its customer. As the processing would take 5 to 6 months, the Metals Co would be without funds for some time and unable to pay Baoshan Steel, which would cause difficulties in Baoshan's turnover of funds. With the help of the bank, the Metals Co gave Baoshan an accepted draft, which Baoshan had discounted by its bank, in this way, finally, solving the dilemma. The role that this method plays in regulating the year-by-year production in industry, and in solving difficulties that arise through seasonal sales in commerce, is particularly evident. By applying this method, the draft and the goods are both finally fulfilling their objectives, and factories and trading firms are enabled to conduct their regular business year after year.

ECONOMIC DEVELOPMENT ZONES

BRIEFS

QINGDAO EXPANDS EXPORTS--Beijing, 19 November (XINHUA)--Qingdao has implemented new measures to increase production of export goods and establish more export bases, the overseas edition of the PEOPLE'S DAILY reported today. "At the end of last year, Qingdao, one of China's open coastal cities in east China's Shandong province, set up a group specifically in charge of exports to collect information from the provincial Foreign Trade Department and determine world market demands," the paper said. The city's 320 export-oriented enterprises have been encouraged to boost production, and so far this year have exported goods worth one billion yuan (US\$270 million). A textile mill in the city has developed 12 new products for export including waxing yarn and cotton-polyester fabrics, according to the paper. A carpet factory turned out 20,000 square meters of carpet for export in the first six months of this year, a 54 percent increase over the same period last year. Qingdao has established nine export bases in its suburban areas for chicken, grapes, asparagus and graphite, and the city's township enterprises now manufacture more than 80 different products for export, the paper said. [Text] [Beijing XINHUA in English 0710 GMT 19 Nov 86 OW] /12913

CSO: 4020/439

ECONOMIC MANAGEMENT

ENTERPRISES INCUR MOUNTING LOSSES

Beijing JINGJI RIBAO in Chinese 13 Sep 86 p 1

[Article by Xie Zhenjiang [6200 6966 3068]: "Measures to Stem Mounting Losses by Enterprises"]

[Text] Recent statistics from the Ministry of Finance make it clear that not only have state-run enterprises around the nation failed to meet their loss-reduction targets set by the government, but the losses have actually been climbing month after month. From January through August, the accumulated losses of all state-run enterprises in industrial production rose 69.8 percent over the same period last year, exceeding the limit for annual loss handed down by the government at the beginning of the year.

Reports suggest that since the beginning of 1986, industrial production nationwide has been growing in a stable balanced way at a normal speed. The energy and raw materials sectors have been doing relatively well, while the transportation and communication sectors have over-fulfilled the national plan. In general, the situation is good. But low profitability remains a glaring problem in industrial production and transportation.

In the analyses of some economic and financial experts, three things stand out about the losses that state-run enterprises have been piling up in the first 8 months of this year:

The extensiveness of the problem. In 1984 and 1985, 10.5 and 10.7 percent, respectively, of all enterprises ran up losses. This year it was already a high 17.6 percent as of late August.

The growing ranks of the new money-losers. The number of unprofitable state-run enterprises in industrial production topped 6,800 at the end of August, an increase of more than 1,600 over the corresponding period a year ago. Of the 6,800 enterprises, about 40 percent sank into the red this year.

Third, heavy losses are concentrated in a few industries.

An official in charge from the Ministry of Finance points out that mounting losses are extremely detrimental to the fulfillment of this year's revenue

plan and must be taken very seriously by leaders at all levels. He demands that all localities and agencies concerned strengthen leadership over the loss-reduction drive in accordance with the 10-point plan issued by the Ministry of Finance and the State Economic Commission about improving the profitability of industrial and transportation enterprises and cutting losses aggressively. The government would continue to cover losses, but only up to a certain fixed level. It may also reduce gradually the money it hands out to make good the losses. If an enterprise turns a loss into a profit in a certain year, it will be allowed to retain an amount equivalent to its projected loss for that year as well as all its profits. Moreover, it can keep its profits for the next 2 years in accordance with a set ratio. The government will not compensate an enterprise for any new losses it incurs as a result of mismanagement or for losses in excess of the projected target.

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CSO: 4006/103



ECONOMIC MANAGEMENT

DRUG PRICES RAISED TO STIMULATE PRODUCTION

HK280544 Beijing CHINA DAILY in English 28 Oct 86 p 3

[Article by Zhang Ping]

[Text] The prices of as many as 25 common medicines will be raised next month in an effort to increase their production and ease shortages that have prevailed across the country since early this year.

The new prices that will go into effect on 1 Nov will be 10 to 70 percent higher than present ones. Most of the medicines affected are antibiotics, fever fighters and pain killers, such as penicillin, aspirin, and vitamins.

"This is the first time for China to raise the prices of so many common medicines," Li Lin, an official of the State Pharmaceutical Administration said. "Since 1949, prices of such medicines have been lowered eight times."

He told CHINA DAILY that the price rises will be made partly because raw materials have increased and partly because low prices have discouraged pharmaceutical production.

The price of 100 aspirin tablets, for instance, will be increased by 64 percent from 0.55 yuan (\$0.51) to 0.90 yuan (\$0.25). And of one hundred 0.1-gram vitamin tablets by 52 percent from 0.65 yuan to 1 yuan. The price of paracetamol, a combination pain-killer and fever-reducer, will be raised by 15 percent from 13 yuan (\$3.5) per thousand 0.5-gram tablets to 15 yuan (\$4.1).

To offset the effect on consumers, Li said, the state has lowered the prices of two drugs--the antibiotic gentamicin by 6 percent, and one used to treat inflammation by 14 percent.

According to Li, the whole country has suffered a severe shortage of drugs since early this year. Many often-used drugs, like antibiotics, insulin and anticarcinogens, have been in short supply at hospitals. Doctors have had to adjust their chemotherapy prescriptions and substitute less effective treatment.

The main cause for the drug shortage has been a lack of raw materials, whose prices have risen beyond the reach of factories with limited funds, the official said.

A recent survey showed that many pharmaceutical factories are short of chemical raw materials like anilin, iodine and acetose. They can get only about 60 percent of the materials they need.

Another reason is that the price of medicinal grain has increased greatly. The price of corn, the main raw material in dextrose infusion liquids, for example, has risen from 180 yuan (\$48) per ton to 480 (\$129). Of the country's 40 dextrose infusion factories, 30 have stopped production.

China's Pharmaceutical Industry Company has been trying its best to solve the drug shortage. Production of drugs in short supply has been resumed or increased. Other drugs with similar curative effects are often substituted. Now among the listed 68 drugs that have been short, 67 percent--including insulin--now fill the need fully or partially.

"Production of 26 drugs still needs to be improved," said Guang Qili, director of the planning department of the State Pharmaceutical Industrial Company.

"However," he said, "some hospitals may face shortages because of the drug distribution problem."

Last May, hospitals in Beijing were complaining they were short of 195 drugs. But soon they discovered that half were available in stocks of the pharmaceutical company.

In recent years, the supply and demand relations between hospitals and pharmaceutical companies has become confused. Unlike in the past when hospitals mainly relied on the pharmaceutical company for supplies, now they can get drugs through other sources. So each knows less about what the other needs or has to offer.

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CSP: 4020/49

ECONOMIC MANAGEMENT

MAJOR PRINCIPLES FOR CAPITAL CONSTRUCTION

OW191115 Beijing XINHUA in English 0909 GMT 19 Nov 86

[Text] Beijing, 19 Nov (XINHUA)--Today's economic daily calls for continued limits on the investment in capital construction next year to keep economic development steady.

The paper says in a commentary that investment must be put into projects with quicker and better results in 1987, second year of the seventh five-year program (1986-90).

The main task for the national economy and social development next year is to keep the basic balance between general social needs and supply.

Premier Zhao Ziyang said in the "report on the seventh five-year plan" early this year that a decisive factor in steady economic growth is that the scale of investment must correspond to the financial capacity of the state.

"This is an objective law of socialist economic development. Allowing over-investment in defiance of this law will inevitably give rise to serious disproportions between major economic sectors, causing setbacks to our economy and delaying the process of modernization," Zhao indicated.

Whether the arrangement of investment in fixed assets is appropriate and the investment structure rational will greatly affect the overall situation, the paper notes.

To ensure the steady development of the national economy in the long run, it is necessary to rearrange the investment structure, raise economic results of investment and concentrate on key capital construction projects.

The paper calls for sticking to such principles to ensure the investment in the infrastructure and basic industries such as energy, transport and raw materials, and badly-needed productive construction projects, and cut down investment in construction of ordinary processing industry and non-productive construction projects.

Priority will be given to construction of projects of energy, transport and raw materials. Projects, of which the construction and production conditions are not yet ready or supportive projects lacking, must be halted or postponed, the paper said.

ECONOMIC MANAGEMENT

BRIEFS

LEASED STORES PROFITABLE--Beijing, 5 Nov (XINHUA)--All of Beijing's 1,300 state-owned shops and service businesses have earned profits since they were leased to private individuals or collectives in July, the BEIJING DAILY reported today. Before they were leased, 200 of them were losing money while the others were making marginal profits, the paper said. The businesses have become profitable by extending service hours, linking workers' income to revenues, improving service and increasing inventories, now that they are responsible for their own losses and profits. "The new system has been good for everyone," the paper said. "Not only has it ended the government's losses and generated new tax receipts, but also increased workers' earnings and provided the new managers with profits." At the same time, by increasing available services, "it has made it easier to get a haircut or have one's bicycle repaired in Beijing," it said. [Text] [Beijing XINHUA in English 1149 GMT 5 Nov 86 OW] /9738

CSO: 4020/49

FINANCE AND BANKING

PRIVATE RURAL BANKS PROMOTE ECONOMIC DEVELOPMENT

OWO31827 Beijing XINHUA in English 1606 GMT 3 Nov 86

[Text] Beijing, 3 November (XINHUA)--For the first time in many years, Chinese peasants can count on cooperative or private banks for loans to develop production according to the PEOPLE'S DAILY today.

The paper cited the example of Wenzhou in Zhejiang Province, where such banks now supply 80 percent of the funds needed by the 130,000 industrial and commercial businesses run by local peasant families.

These businesses need a total of 500 million yuan of funds a year to expand production, but state banks and rural credit cooperatives can only provide one-fifth of the sum.

Thanks to the policy of encouraging rural prosperity, the paper added, peasants in the area are estimated to have 1 billion yuan of surplus money to lend to others.

Another example of Guangdong Province, where the amount of surplus money that can be used as loans is estimated at 8 billion yuan.

The non-government banks are owned by one or several people or by groups of enterprises and most of them were set up last year in coastal provinces such as Liaoning, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong.

Their emergence impels official financial institutions to change their old practices of floating interest rates and breaking limits on bank deposits and loans, the paper said.

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CSO: 4020/48

MINERAL RESOURCES

GANSU'S BAIYIN NONFERROUS METAL PRODUCTION

Largest Nonferrous Production Base

OWO20132 Beijing XINHUA in English 0115 GMT 2 Nov 86

[Text] Lanzhou, 2 November (XINHUA)--Baiyin City in northwest China's Gansu Province is expected to become the country's largest nonferrous production base during China's Seventh 5-Year Plan period (1986-90), according to a provincial planner.

China has invested 1.4 billion yuan (378 million U.S. dollars) to build a non-ferrous production base which includes copper, lead, and zinc mines, lead, zinc and aluminium processing plants, and a technical renovation project.

Baiyin City, also known as the "copper city," will increase its production of copper, lead, zinc and aluminium from the present annual 50,000 tons to 300,000 tons when the above projects are completed in 1988. Total industrial output value will double and profits are expected to triple, according to an official in charge of the projects.

Upon completion, the Baiyin aluminium plant and the Changba lead and zinc mine will continue to go into second stage expansion which is designed to surpass a combined annual production of 400,000 tons.

This nonferrous production base in Baiyin City, developed by a copper producer, is built on a mineral deposit which has a verified reserve of 9.6 million tons of lead and zinc. The deposit is also near a branch of the Yellow River which supplies the city with plenty of water and electricity.

Nonferrous Metal Projects

OWO71418 Beijing XINHUA in English 1228 GMT 7 Nov 86

[Text] Lanzhou, 7 November (XINHUA)--The state plans to spend 4.5 billion yuan (about 1.2 billion U.S. dollars) on five projects to produce nonferrous metals in Baiyin City, Gansu Province.

According to a local government official, the authorities will make the city the largest nonferrous metal producer in China by 1990.

The city now has an annual production of 50,000 tons of nonferrous metals. The official said that by 1990 a smelter with an annual production capacity of 150,000 tons of lead and zinc will be set up, the official said.

The five projects also include a factory to produce 100,000 tons of electrolyzed aluminium a year and copper refineries, the official said.

"By then, Baiyin will become the largest nonferrous metals producer in China with a production of 300,000 tons," the official said.

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CSO: 4020/48

INDUSTRY

WUHAN STEEL COMPLEX LAUNCHES MASSIVE TECHNOLOGICAL TRANSFORMATION

Beijing RENMIN RIBAO in Chinese 29 Oct 86 p 3

[Article by Tian Huiming [3944 1920 2494]: "Wuhan Iron and Steel Complex Modernizes to be the Largest in China"]

[Text] The State Council recently approved the plan by Wuhan Iron and Steel Complex to undertake a massive technological transformation during the Seventh 5-Year Plan to increase annual steel and iron output from 4 million to 7 million tons each.

The realization of this magnificent plan would catapult the Wuhan complex into the position of the largest iron and steel complex in the nation, overtaking Liaoning's Anshan complex and Shanghai's Baoshan complex.

Last May Premier Zhao Ziyang inspected Wuhan and said that with its central location in the heart of China and its many unique advantages, the complex should vigorously transform itself technologically in order to increase its production capacity.

In mid-October, Minister of Metallurgical Industry Qi Yuanjing [2058 0337 7231] met with several high-ranking officials from the State Planning Commission, Hubei Province, and the city of Wuhan at the Wuhan Complex and examined and approved there and then the "double 7 million tons" plan. They also discussed such specific matters as the raising of capital, the purchase of equipment, energy, and transportation.

Built in the 1950's, Wuhan was China's first heavy iron and steel complex. At the time Soviet expert A Er Xi Bo Fu and others helped China with site selection and the construction of blast furnaces, among other things. On 13 September 1958, when Wuhan smelted its first heat of iron, Mao Zedong and others were on hand to take part in the grand ceremony.

In the 1970's, the government spent 4 billion yuan to purchase from the Federal Republic of Germany and Japan an entire set of modern steel rolling equipment and built a hot rolling plant and a cold rolling plant, which made possible the production of thin steel plates urgently needed in China. Over 6 years after it was put into service, the set of equipment has fully recouped the original investment.

This giant of a steel complex is located to the south of Changjiang, about 30 kilometers east of Wuchang. The nation's second largest iron and steel works after Anshan, it has more than 60 plants under it and currently employs 130,000 people.



INDUSTRY

COAL MINERS DIVERSIFY INTO SIDELINE ENTERPRISES

OW291152 Beijing XINHUA in English 1140 GMT 29 Oct 86

[Text] Beijing, 29 Oct (XINHUA)--China's coal miners and their families are involved in producing more than 10,000 other products outside the mines, an official of the Chinese Coal Industry Ministry said today.

"Aside from processing the coal itself," he said, "people connected with the mining industry are involved in making building materials, machines, light industrial goods and chemical products."

In addition, he said, they produce textiles, processed timber and food and farm products and are involved in service trades. Altogether, he said, miners and their families produced more than four billion yuan (U.S. \$1 billion) in output value outside the mines in 1985.

The most important producers of sideline income for the families are the grown children of miners, the official said, who otherwise might not have jobs. Other sideline workers include former miners whose health might be damaged by continuing in the mines.

Some state-owned mining enterprises have diversified into other areas, employing people in machine repair, hardware manufacture and construction projects.

According to Yu Hongen, the minister of coal, by doing their own construction and other work, "the mining enterprises have not only saved money, they have developed needed service enterprises and have helped improve the lives of the miners' families."

Yu said the ministry would spend 300 million yuan (U.S. \$81 million) a year through 1990 helping the mines diversify.

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CSO: 4020/49

INDUSTRY

INDUSTRIAL GROWTH RATE BECOMES 'NORMAL'

HK190246 Beijing CHINA DAILY in English 19 Nov 86 p 4

[First paragraph is CHINA DAILY introduction]

[Text] Although China's industrial growth is slowing down this year, the total industrial output value for the first 10 months has increased by 7.4 percent over last year.

After accounting for outside factors, overall economic results are still not bad, according to a report by the State Economic Commission and paper ECONOMIC INFORMATION. Excerpts follow:

Since the start of this year, China's industry has become normal compared with last year's overzealous growth pace. Yet, some new changes should be observed and studied.

First is the industrial output increase versus tax and profit decreases. While the total industrial output value has gone up, taxes, profits and revenue decreased.

The second change is product cost and capital expense increases. The total cost of manufactured goods increased, in the first eight months, by 4.6 percent over the corresponding period last year.

Other changes include slowly growing labor productivity and rising industrial loss figures. These indicate that overall industrial profitability is decreasing and that there exist a number of complicated problems that deserve our attention.

Some might recall that China's economy was boosted to an excessive degree until early this year--so fast that neither financial nor material capabilities could match that speed. Rational adjustment has been made to halt the unusual growth rate.

Therefore, it is not advisable for us to compare sheer figures from this year with those of last year when the measurement cannot accurately indicate the rate of growth or fall.

Another factor lies in conflict between demand and supply of industrial products. On one hand, unsalable goods are stockpiled in warehouses; on the other, supplies of good quality products are short. In such a context, demand-supply balance is difficult to reach within a short time.

Other factors have affected industrial production. Although there still exist a number of inefficient, mismanaged enterprises, most other industrial sectors are undergoing fundamental changes which are so novel and thorough that they are not yet accustomed to the new situation. They will be catching up in a little while.

Some of the following factors should also be taken into account when assessment of this year's industrial results is made:

Rising prices of raw materials, fuel, power and transport have increased production costs. In fact, as much as 59 percent of cost increases were due to price hikes and were transferred into benefits for non-industrial sectors, such as agriculture, transport and banking corporations.

Wage and management fee increases have affected industry's effort to keep product costs down. According to estimates, another 37 percent of increasing product costs was caused by pay raises and higher managerial fees and expenses.

A shortage of foreign hard currencies has compelled some factories with imported equipment to slow down production which depends heavily on imported accessory supplies.

Too many special fees have been collected. A survey of 16 factories in Yantai, Shandong Province, revealed that the total fees collected in the first half of this year had equalled last year's total.

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INDUSTRY

BRIEFS

PETROCHEMICAL INDUSTRY GROWTH--Beijing, 20 Nov (XINHUA)--The reform of China's economic structure has helped the country's petrochemical industry to grow rapidly, an official involved in the industry said. The China Petrochemical Corporation, which manages China's petrochemical industry, will turn out 185,200 tons of polyester this year, three times as much as the country's output in 1982. This was cited as an example of the advances in the industry. Under the economic reforms, the management of 39 major refineries, petrochemical and chemical fiber plants throughout China were streamlined into one large corporation. Previously, the plants and refineries were run by various central departments and administrative regions. The corporation now exercises control over planning and management of the enterprises, making it possible to make maximum use of oil and natural gas resources. The petrochemical industry will turn out one million more tons of urea this year than in 1982. It has turned over 10.4 billion yuan in taxes and profits annually to the state since 1983, up an average of 22.4 percent from 1982 and more than any other industry. Since 1982, the official said, China's crude oil refining output has grown at an annual average rate of 3.4 percent. [Text] [Beijing XINHUA in English 0229 GMT 20 Nov 86 OW] /9738

CSO: 4020/49

## DOMESTIC TRADE

### NEI MONGGOL HOSTS NATIONAL TRADE FAIR CONFERENCE

SK200933 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 18 Nov 86

[Text] At the national conference recently held in Nei Monggol Autonomous Region on trade fairs and market management, participated in by the 10 provinces, municipalities, and autonomous regions of North China, the participating comrades unanimously held that in conducting reforms and enforcing the policy opening to the outside world to enliven the economy, the trade fairs and markets of the 10 provinces, municipalities, and autonomous regions, including Beijing Municipality, Liaoning Province, and Nei Monggol Autonomous Region, have developed into a new phase. They have become an important channel in commodity circulation by reversing their former tasks of readjusting surpluses and shortages, helping supply each other's needs, and filling up the deficit caused by the state commercial firms. The main indicator of this change is that commodity dealers and the scope of commodity supply in these trade fairs and markets have done away with the former practice of only having peasants sell and buy their farm and sideline products, and that these trade fairs and markets have become ones full of specialized or comprehensive commodities turned out by both domestically and from the outside as well as private and public producers. Market dealers and business methods have broken through the former traditional trading style. The style of direct business operations only participated in by peasants has been changed into the exchanging operations joined by the state, collective, and individual producers; intermediate traders and dealers; and by all sorts of consumers.

The transportation of commodities among these trade fairs and markets has been changed from carrying goods by hand, shoulders, and bicycles to handling commodities with motor vehicles, trains, ships, and airplanes. Localities which have achieved rapid development in the commodity economy have formed a new economic pattern with the foundation of enterprises run by townships and towns and of industrial plants run by households, with the backing of wholesale markets dealing with specialized commodities, and with the major marketing forces of households acting as commodity transport agents. The style of purchasing and sales among these trade fairs and markets has also broken through the traditional cash trade and exchanges of commodities. They have developed to adopt various ways and means in conducting business, such as conducting overall marketing, acting as sales and storage agents, acting as transport agents, and carrying out final accounting, ordering minor

commodities by seeing samples, and signing business agreements and delivering contracted goods within the prescribed date.

The volume of commodity sales among these trade fairs has increased sharply. The number of new built trade fairs and markets has grown from nothing in the urban areas and from a few in the rural areas.

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CSO: 4006/124

DOMESTIC TRADE

BRIEFS

TRANSREGIONAL TAX BREAKS--Beijing, 11 November (XINHUA)--Most of China's provinces and regions are giving tax and credit subsidies to state-owned enterprises involved with firms in other parts of the country, the ECONOMIC DAILY reported today. The subsidies are designed to encourage the enterprises to take advantage of resources elsewhere in China, according to the paper. Ultimately, it said, this transregional cooperation should lead to even more economic development throughout the country. The new provisions will encourage enterprises in the more prosperous coastal provinces to combine their advanced technology with the abundant supply of workers and previously untapped natural resources in China's less developed areas. To qualify for the subsidies, an enterprise must have recently become profitable after a period of losses and must have improved the quality of its products or have developed new ones by engaging in transregional cooperation, according to the paper. In Guizhou province, for example, such enterprises will be exempt from income taxes for two years from the first day they become profitable and will be exempt from half of their income taxes in the third year. In Shandong province, banks are cutting interest rates by 20 percent for enterprises that qualify for the subsidies. [Text] [Beijing XINHUA in English 1150 GMT 11 Nov 86 OW] /12913

CSO: 4020/439

## FOREIGN TRADE AND INVESTMENT

### PRC OFFICIAL ON ENCOURAGING INVESTMENT

OW252113 Beijing XINHUA in English 1615 GMT 25 Nov 86

[Text] Hong Kong, 25 November (XINHUA)--A leading Chinese legal expert encouraged more foreign investors to do business on the mainland.

The Chinese government has made great efforts to solve the problems of foreign invested ventures in the past few years, and will further improve the investment climate," Gu Ming, general director of the Economic Legislation Research Center under China's State Council, told XINHUA here today. He said, "China will enact a fairly complete set of economic laws during the 1986-90 period to protect the legal interests of foreign investors."

Gu, also chairman of the China Research Institute of Economic Laws added, "China has formulated more than 300 economic laws since 1978, and many are aimed at promoting joint ventures and other businesses involving overseas investment."

Early this year, the State Council published two regulations on balances of foreign exchange for joint ventures and further preferential treatment to encourage overseas investment.

"China is accelerating the pace of personnel training to help implement laws and statutes," Gu Ming said, adding that at present, China has only 20,000 lawyers. "The number is too few, compared to some 700,000 lawyers in the United States," he said.

To cut red tape, the State Council set up an advisory group earlier this year, and Tianjin, Shanghai, Xiamen and other major cities have set up joint offices to make decisions on foreign economic relations, he said.

As a result, applications for some projects which used to take a year or even two years to get approval can now be decided within three months. In the past, establishment of a business involving foreign investment had to be approved by a dozen departments.

Another measure to enhance efficiency is that foreign-funded businesses can import materials or components for production according to contract without the repeated approval of Chinese authorities. "The approval procedure was once exhausting and a headache for investors," Gu said.



Overseas businessmen are worried about the repercussions of firing employees because the majority of Chinese enterprises adopt a lifetime employment system.

"This worry can be dispelled because China has published four documents this year enabling all business managers and factory directors to have the final say on personal matters," Gu stressed.

Additional or unreasonable charges imposed by local departments is another headache for overseas investors. "As for this problem, joint ventures have the right to dispute the charges and refuse to pay," Gu said.

He also noted that income tax for joint ventures in the special economic zones, which accounts for 10-15 percent of the revenue, is the lowest compared to most parts of the world.

At the invitation of the Chinese General Chamber of Commerce of Hong Kong and the China Patent Agency (Hong Kong) Ltd., Gu Ming will explain the mainland's laws and regulations on foreign economic relations to local businessmen there.

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CSO: 4020/441

## FOREIGN TRADE AND INVESTMENT

### POLICY OF ENCOURAGING FOREIGN INVESTMENT

HK181506 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

["Excerpts" from speech by Yang Guangqi (2799 0342 0796), deputy general manager of the China International Trust and Investment Corporation, at the 2d Sino-Japanese Economic Seminar sponsored by the general offices of RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "China's Policy and Measures for Encouraging Foreign Investment"]

[Text] Some foreign firms and friends said: China's current investment environment is still not very satisfactory. For example, labor cost, land fees, and charges for factory buildings and other items are still a bit too high. All these factors have increased production costs. Moreover, it is difficult to strike a balance in foreign exchange. Work efficiency is low, formalities are tedious, and laws are not complete.

China is earnestly studying solutions to the above-mentioned problems and has adopted effective measures to improve its conditions for foreign investment so that our investment environment will have a greater attraction.

Above all else, we shall pay particular attention to exploiting our strong points of relatively low labor cost and other fees to make the products turned out by foreign investors in China distinctively more competitive than those produced by them in our neighboring countries and regions. Special preferential treatment will be given to export-oriented enterprises and technologically advanced enterprises in such areas as service charges, land fees, enterprise income tax, and tax on enterprise profit transfers out of the country. They will be given priority in water and electricity supplies and communications and telecommunications facilities and the state will collect fees in this regard from them as it does with state-owned enterprises. Foreign investors who re-invest their profits in China are entitled to get back 40 percent of the income tax that their enterprises have paid. If they invest their profits in export-oriented enterprises or technologically advanced enterprises, all income tax that they have paid will be refunded.

We must see that the investors will make a profit. This will help attract more people to invest in China. Now more and more people in China have come to realize this truth.

The Chinese Government has decided to guarantee the decisionmaking power of foreign-funded enterprises so that they can carry out their production and operations in line with international practices. For example, they are entitled to determine their setups and to hire or fire their employees; the decisionmaking power of foreign-funded enterprises in production and operation is guaranteed; foreign enterprises are entitled to define their wage and rewards systems independently and are empowered to import equipment, raw and semifinished materials, and components or spare parts necessary for executing their export contracts. They are no longer required to go through additional examination and approval formalities or to apply for import licenses.

The problem of achieving a balance in foreign exchange by joint-venture enterprises should be solved by both parties involved in the enterprises. In the light of different conditions, the Chinese side is considering taking different methods: The state will allot the needed foreign exchange to the projects which are badly needed by the state and where the enterprises themselves are really not in a position to repay the foreign exchange. The foreign exchange necessary for importing the goods in large quantities which are constantly needed by the country will be balanced using the method of importing goods with sale of products. Enterprises are encouraged to adjust and balance their foreign exchange among themselves. Chinese enterprises are entitled, after approval, to conduct countertrade or comprehensive compensation trade with foreign enterprises; and foreign firms are also entitled to invest and form umbrella-type companies with Chinese enterprises. The company can invest in enterprises belonging to different localities and departments. Some enterprises are foreign exchange users and some are foreign exchange earners, and their foreign exchange is balanced by the company in a unified way. Of course, these measures need to be applied according to specific projects through consultation and some need to be written down in contracts.

On the part of foreign countries, they should increase their import of Chinese goods rather than be exclusively concerned about dominating the Chinese market. We want to export more goods in the hope that we can import more goods from foreign countries with money earned from export.

There are favorable conditions for Japan to expand its investment in China. China has relatively cheap labor, rich natural resources, and a considerable industrial foundation. If these favorable conditions are combined with Japan's technology, equipment, and funds, they will have bright prospects. It is our hope that Japan will be more liberal in technology transfers and make more investment in China. Science and technology are constantly developing. Compared with China, Japan has a sounder technological foundation. If China makes some progress technologically in the future, instead of ceasing to make progress, Japan will continue to move ahead with its technology. Therefore, superfluous worries are unnecessary. China's exports constitute a very small proportion in the world market. If China and Japan cooperate with each other, learn from each other to make up deficiencies and increase exports to open up new markets, this will be of benefit to Japan and China as well. With the current appreciation of its yen, Japan has more favorable conditions to invest abroad. We welcome more Japanese firms to invest in our country to expand the market for its export products.

I would like to inform you that we are speeding up the formulation of the detailed rules and regulations concerning Sino-foreign joint ventures and wholly foreign-owned enterprises in China, including providing convenient living conditions for foreign personnel and conditions for their children to go to school. In brief, in my opinion, we must adopt a forward-looking attitude toward the problems facing foreign firms making investment in China and I hope our Japanese friends will make suggestions for improvement.

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CSO: 4006/124

FOREIGN TRADE AND INVESTMENT

DALIAN ANNOUNCES NEW PREFERENCES FOR FOREIGN INVESTORS

Beijing GUOJI SHANGBAO in Chinese 14 Aug 86 p 1

[By reporter Wu Xinhui [0702 2450 1979]: "Dalian Announces New Preferential Treatment Policy for Foreign Investors; Reductions in Land Rental, Labor Service, Engineering, Materials, and Other Charges; Change in Depreciation Method, Accelerated Recovery of Investments"]

[Text] The State Council has decided to allow Dalian to adopt a policy of more extensive preferential treatment for foreign investors in Dalian. This was communicated by Wei Fuhai [7614 1381 3189], mayor of Dalian, to representatives of foreign enterprises, firms, and banks, with offices at Beijing and Dalian, and to Chinese and foreign reporters at a meeting on 9 August for the introduction to the condition of further opening up Dalian City.

Gao Guozhu [7559 0948 3796], assistant to the mayor of Dalian, introduced the participants at the meeting to the six measures of preferential treatment for foreign investors, recently decided upon by the municipal government. The following is a gist of these measures:

1. Reduction in the standard fees for land rentals and infrastructure. The land rental shall be computed at the following prescribed limits: enterprises with foreign investment which export 60 or more percent of their products, or which truly import technologies and equipment of advanced world standards, may, with the approval of the municipal government, be exempted from land rental for 5 years. Enterprises with foreign investments shall be charged infrastructure fees only for actual cost of improving outer appearances, and shall be exempt from paying capital expenses.
2. As regards charges for water, electricity, gas, and heat, enterprises with foreign investments shall enjoy the same treatment as applied to state enterprises. Materials needed by enterprises with foreign investments for their production shall be supplied by the materials supply department of the Dalian municipality according to the rational prices prescribed by the state, as far as domestically available. Sundry items, parts, components, and raw and semifinished materials (including articles for which the state has restricted imports), needed by enterprises with foreign investments for the fulfillment of export contracts, shall, without further examination and

approval, be exempt from the need to obtain import licenses; the customs shall pass such items on the strength of the import contracts. However, should these items be used for domestic sales, they will still have to pay supplemental duty and make up import procedures.

3. Reduction of labor service charges to enterprises with foreign investments for Chinese staff and workers. The salaries and wages actually to be received by Chinese staff and workers shall be determined at 120 to 150 percent of the salary and wages paid to staff and workers in the same line of business in that particular area. The standards for deduction for labor insurance shall be the same as in state enterprises, namely 20 percent of the salary or wage actually received. For housing, city transportation expenses, the price of coal, and other such financial allowances, a fee of 50 yuan per person per month shall have to be paid to the authorities.

4. Extension of the period of exemption from local income tax. An enterprise with foreign investment shall be exempt for 7 years from local income tax, starting with the first year of making a profit. Enterprises which export 70 or more percent of their production and knowledge-intensive, technology-intensive projects, or projects in the field of energy, communications, and harbor construction, may, with due approval, have the period of exemption from local income tax extended. Enterprises with foreign investments may pay their taxes in RMB.

5. Instituting the declining-balance method of depreciation for fixed assets. Depreciation funds may be used in redeeming loans. The rules for balance depreciation are: for buildings, 15 percent; for machinery and equipment, 20 percent; for means of transportation and electronic instruments and meters, 30 to 40 percent. Should the balance decline to one-tenth of the original value, deductions for fixed asset depreciation shall cease, to ensure its end at the determined years of use. Determination of the starting year and limits of years for the tax reductions and exemptions shall follow the method of calculating depreciation prescribed in the country of origin.

6. For project execution and building expenses of enterprises with foreign investments the same standards of charges shall apply as for the same lines of business in China.

The above measures were generally welcomed by the foreign businessmen attending the meeting. The representative of a Japanese firm immediately wired his head office in Japan to the effect that the new measures are conducive to medium and small enterprises placing investments in China.

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CSO: 4006/1320

FOREIGN TRADE AND INVESTMENT

GU MU ON FUJIAN'S OPENING UP TO FOREIGN COUNTRIES

Beijing LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 22, 2 Jun 86 pp 8-9

[Article by Xu Yiming [6079 0001 7686]: "State Councillor Gu Mu Discusses Fujian's Open Policy"]

[Text] Editor's Note: Fujian Province on the southeast coast of China is one of the two provinces allowed to enact special policies to open up to the outside world (the other province is Guangdong). A few days ago, Gu Mu, State Councillor, inspected the processing industry, the Chinese-foreign joint ventures, homes for overseas Chinese, tourist spots, and hotels in Xiamen, Quanzhou, Putian, and Fuzhou. Along the way, he met many cadres, workers, and peasants. On arrival at Fuzhou, Gu Mu exchanged views with Governor Hu Ping [5170 1627] and other provincial leaders on the new situation after the opening up of the province. The present inspection, which has not yet been made public in detail, has a bearing on the present and future direction of Fujian's open policy. The following report provides the gist of the discussions between Gu Mu and the Fujian Provincial Government and the Xiamen City government.

Economic Reform And Opening Up To The Outside Are Irreversible

Governor Hu Ping informed Gu Mu that the last few years marked a transition in Fujian's economic and social development from a closed door policy to an open door policy. In the 42 years from the War of Resistance Against Japan to 1979, Fujian's doors were closed to the outside for reasons well known. Since 1979, Fujian has instituted special policies and flexible measures and freed itself from the fetters of a "leftist" ideology. We realized that Fujian's path to development lay in reform, opening up, and becoming flexible and creative. Over the past few years, Fujian exploited its four advantages over the past few years. These are its mountains, location on the ocean, its overseas Chinese, and special economic zone. Fujian utilized both domestic and foreign resources to exploit both domestic and foreign markets, and developed its skills in domestic construction and developing foreign economic relations. In actual practice and in its experiments, Fujian has been successful.

--As a result of reforms in the rural economic system, the rural economy has gradually shifting from a semi self-sufficient economy to a specialized,

commercialized, and modernized economy. The variety of commodities supplied by rural areas is increasing year by year. In 1985 procurements of agricultural sideline products were valued at 3.9 billion yuan, an increase of 88.4 percent over 1980.

--Gross value of industrial output increased at an average annual rate of 13.2 percent (output of rural industries not included). The province moved up from 19th to 17th place in terms of per capita income.

--More infrastructure was laid and ten major projects were built. These projects are the renovation of the Yingtian-Xiamen and the Waiyang-Fuzhou railways lines, the expansion and new constructions at the Fuzhou and Xiamen airports, the construction of the Mawei harbor at Fuzhou and the Dongdu harbor at Xiamen, the Yong'an and Shaxikou power plants, and the program-controlled telephone installations at Fuzhou and Xiamen. In addition Fujian acquired a locally administered fleet of oceangoing ships for passenger and freight transportation. In the last few years, Fujian spent about 2.5 billion yuan on investments for these projects. Apart from state investments, a large part of the financing came from foreign capital and foreign exchange loans, and by capital raised by the projects themselves.

--To date, Fujian has established economic and trade relations with more than 130 countries and territories and financial cooperation with more than 20 countries and territories. The total of utilized foreign capital, including contributions from overseas Chinese, accounts for one-tenth of all fixed assets investments in the province. Fujian imported 750 items of advanced technologies and equipment to improve traditional industries, with an investment of 1.3 billion yuan. This led to a production increase of 4 billion yuan and an increase of 1.05 billion yuan in taxable profits.

After reviewing these changes, Governor Hu Ping told Gu Mu that conditions in Fujian Province were very good. One of the biggest benefits of the reforms and the open policy is that the cadres have derived new skills and a higher level of awareness. These are indispensable tools needed for reforming and opening up even further. Of course there are economic problems, social problems and some notorious cases in the past. Some of these problems have been solved while others are being dealt with in a comprehensive way.

Gu Mu responded that China's situation has been continuously improving after opening up to the outside world. As with Guangdong, Fujian, in frontline position in the open policy, has derived valuable experience. There will be no turning back from the open policy, reforms, and vitalization of the domestic economy. This is the path we must take if China is to be rich and strong. There is no justification for any underestimation or skepticism regarding the successes gained in reform and opening up.

Gu Mu said that the situation he saw in his stops in the province, whether at Xiamen, or at Quanzhou, Putian, or Fuzhou were fine. There have been increases in industrial and agricultural output, per capita income, foreign capital utilization, foreign trade, and the three forms of import processing (import of raw materials, import of parts, import of samples) and compensation trade. Domestically and abroad, some people have expressed reservations about our



reforms and open policy. We must be clearheaded and steadfast. The open door and reforms are not just intended for procuring material things. They are also meant to bring about foreign exchange earnings and economic construction. Even more important, they are a way to break out of our old framework. We are now traversing a path no one has dared to think of traveling before. It is the path of a new socialism with Chinese characteristics and the inauguration of a new historic period. That is why we cannot reverse our reforms or the open policy. Now all our efforts are devoted to loosening up, not tightening up.

#### Maximizing The Many Advantages We Have With Our Overseas Chinese

Governor Hu Ping told Gu Mu that more than 6 million Fujianese live abroad as overseas Chinese or Chinese of foreign nationalities. They constitute one-third of the overseas Chinese. They are represented in the five continents and are dispersed in over 90 countries and territories. Ever since Fujian opened up to the outside and opened up a special economic zone, there has been a large increase in the number of overseas Chinese returning as tourists, donating gifts, investing, and contributing in an important way to the province's economic development.

Gu Mu said that the first, second, and third generation overseas Chinese were poor common folks. After many years of struggle, however, they have attained good positions abroad. Now we need to do two things. First, we need to earnestly invite them to return to invest. They can first invest in small projects and proceed to larger ones. Second, we need to cooperate with them to produce goods that are competitive on the international market. We must be respectful of them. We must allow them a free hand in running joint ventures, subsidiary companies, and jointly-run enterprises they have already started, whether large or small. We must adhere to the principles of mutual benefit and profit and give them preferential treatment. I suggest that Fujian look upon the wooing of overseas Chinese as a major task and invite them to better contribute to the economic development of the motherland.

#### There Should Be Further Advances In The Utilization Of Foreign Capital

Gu Mu said that last year there was rapid development in the entire coastal area of Fujian, including the Xiamen SEZ. This year further progress must be made in the use of foreign capital. On the foundation laid last year, those areas which deserve it must be further stimulated, because this year it is not only a question of this year alone, but a question also of the logistics for next year, the year following, and even a number of years thereafter. There simply have to be improvements, therefore, in energy supply, communications, and transportation. Attention must, furthermore, be directed at the importation of foreign capital and technologies and the increase of exports that will create additional foreign exchange. Enterprises outside the state plan, as long as they are exporting and creating foreign exchange, and as long as they employ truly advanced technologies, should be encouraged to forge ahead. This includes the further development of certain projects in the coastal areas. To ensure the continued development of certain useful projects, certain unimportant projects could be screened out. As a result of such eliminations, those that truly deserve it must be further

promoted, especially projects that will accelerate China's national development within the next 3 to 5 years. Under no circumstances must there be any falling-off in the importation of foreign capital and technologies.

#### Large Advances In Xiamen SEZ Development

During his stay in Xiamen, Gu Mu paid particular attention to reports of the leadership of the city party committee and the city government and arrived at a most positive assessment of achievements accomplished in the Xiamen SEZ during the last few years.

Gu Mu said that Xiamen has developed very rapidly in the last 2 years and has effectively imported new technologies, new equipment, and successfully developed Chinese-foreign joint ventures, cooperative management, and foreign-financed enterprises; several of these projects started out at a high technical level. In the beginning it might not be possible to demand that operations be too advanced. Presently, there are some large-scale projects as well as many small projects, which is a condition that conforms to the proposal of the SEZ Conference, namely to have "precision, small-scale, light, and modern operations." In pursuing this path, the SEZ follows the right road, and also not at too slow a pace. If the pace were really too fast, it would not suit China's managerial level, its cadre strength, and its many other conditions.

Gu Mu presented the proposal that one of the considerations during the development of the Xiamen SEZ may possibly be to build up Xiamen into a pretty garden city, somewhat like Singapore. He said, Singapore is an old city, but with special characteristics, which also applies to the Yurong Industrial Estate, namely, that city buildings are not all clustered closely together, but that a sufficient number of green spots are interspersed between blocks of buildings. This is not only pleasing to the eye, but beneficial for an ecological balance and for the prevention of pollution. Xiamen possesses all the favorable preconditions to become a Singapore-style garden city.

Gu Mu pointed out that Xiamen should not only import from abroad, but also cooperate with units in the interior. It should cooperate with fraternal provinces and cities and provide facilities and favorable conditions for all provinces and cities by establishing lateral economic ties. Granting certain benefits to others would not only be right but also profitable. Disregard for moral principles at the prospect of profits is an attitude disapproved by the CPC, but it is not enough to act merely out of considerations of benevolence and on moral principles alone. This is something all cadres must understand, and the city must formulate a whole set of relevant policies. Proceeding in this manner would benefit everyone involved, and would also accelerate Xiamen's development, enabling it to truly assume the role of a "window," an export base, and a swinging door that opens both ways.

Gu Mu again stressed that conditions at Xiamen as a port city are excellent. Xiamen must become a port bustling with activities, a place flourishing in foreign and domestic trade. Some countries wish to use Xiamen as a refuelling

station; this is something that can indeed be achieved. Providing foreign vessels with fuel oil and providing food and lodgings for foreign sailors should bring about corresponding development in Xiamen's service facilities.

Finally Gu Mu expressed the hope that Xiamen will bring all its advantages into play and export even more products. He said that Xiamen's strength is not only the manufacture of household electric appliances, Xiamen's fruits, marine products, and other commodities are unavailable in the cold zones of the north. This advantage should be exploited by preserving and processing food for shipment to international markets.

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CSO: 4006/1146

FOREIGN TRADE AND INVESTMENT

PRC OFFICIAL ON NEW FOREIGN INVESTMENT LAWS

HK260223 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 26 Nov 86 p 1

[By Paul Sham]

[Text] China next year will promulgate more than 10 laws relating to foreign trade and investment, according to the director of China's Economic Legislation Research centre, Gu Ming.

He said China intended to establish a comprehensive legal framework for economic activities within the current 5-Year Plan. The new laws would cover cooperative joint ventures, special ventures, special economic zones [SEZ's], corporate law, securities, banking, bankruptcy, foreign trade, and maritime law. They would be among about 160 laws which the Central Government planned to enact next year in a move to expand foreign economic relations.

Mr Gu said the new laws would be backed up by reform in other economic areas, such as the separation of governmental administration from commercial enterprises. He said uncertainty over current laws--and in some cases the lack of laws--had necessitated new legislation, but the new legislation would not over-ride agreements already reached between China and overseas parties.

For instance, a joint venturer could choose to enjoy the longer tax exemption period under the new law, but ignore the new requirement of minimum paid-up capital.

Mr Gu said the new cooperative joint venture law would represent another major step in China's move to attract foreign investment. All joint ventures are now governed by the equity joint venture law, despite the fact that more than 4,100 of the 7,000 joint ventures established so far are cooperative joint ventures, he said.

Mr Gu said cooperative joint ventures, which provided foreign investment and technology while the Chinese partners provided the land and work force, were preferable to equity joint ventures because of China's shortage of foreign exchange and technology. He said as a result of the new law, China would attract more investment from Hong Kong, Macao, and Taiwan, because investors from those countries preferred small to medium-sized cooperative joint ventures.

Mr Gu said the planned SEZ's law revision had been prompted by the rapid development of the four zones. The existing law, based on the conditions in Guangdong province, had been found to be inadequate when applied to Xiamen, the one SEZ located out of the province.

He said it was likely China would set up more economic zones in other parts of the country, or some inland cities would adopt part of the SEZ system.

With regard to corporate law, Mr Gu said more emphasis would be placed on defining limited companies and shareholding enterprises and their rights and obligations, because of the trend towards new companies in these two categories instead of sole ownership or partnerships. He said the corporate law would be promulgated at the same time as the securities law and bankruptcy law to regulate fund-raising [words indistinct]. However, existing bonds and stocks would not be affected.

Mr Gu admitted the draft of the bankruptcy law had at one stage some opposition because of its conflict with the existing system, but said the revised version had won wide support from members of the legislative body.

The revised draft gave job protection to workers and absolved management personnel of responsibility if it was found a company's failure was beyond their control.

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

PRC BUSINESSMEN ON SINO-JAPANESE ECONOMIC RELATIONS

HK181410 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

["Excerpts" of a speech by Yuan Geng (5913 1649), deputy managing director of the China Merchants Steam Navigation Company Group and chairman of the Shekou Industrial District Management Committee, at the 2d Sino-Japanese Economic Seminar sponsored by the general offices of RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "China's Policy of Opening Up and Sino-Japanese Economic Relations"]

[Text] Thanks to the opening of the front door, the Chinese people have broadened their field of vision and washed away the [word indistinct] backward and conservative feudal ideas and other backward concepts. People have come to understand that only an open society can contribute to the emancipation of the people's intelligence and wisdom.

I am optimistic about the prospects for Sino-Japanese economic relations. However, there are indeed some problems which should be solved through the joint efforts of both parties.

With their diligence, shrewdness, and constant pursuit of benefit, many Japanese friends may be rated as first-rate businessmen, builders, and administrators. I said in 1984 that we should "take Japan as teachers" in economic and enterprise management. Over the past few years, we have made great efforts to do so in the Shekou industrial district although we have not learned it well.

Over the past 8 years, the China Merchants Steam Navigation Company, which is under my charge, has purchased and imported for cash \$1.3 billion worth of ships, equipment, materials, and technologies from your country, not including some \$900 million worth of equipment imported by the Shekou industrial district and Chiwan port from your country. This may account for an insignificant proportion of the trade between our two countries but it is not a small amount for an enterprise like ours. From one small clue one can see how things will develop. It has enabled us to perceive, and to worry about, the seriousness of the current Sino-Japanese trade imbalance.

Your country's huge trade surplus has become a topic of discussion in the world. The U.S. trade deficit with Japan topped \$50 billion last year. U.S. Finance Secretary James Baker complained that "this trade deficit is unacceptable politically and will ultimately be unacceptable economically." U.S. industrialist Lee Laccoca [preceding name as published in English] was even more straightforward when he said: For many years the Japanese trade measures have not been as fair as the United States believes. The Americans have begun to feel that they have been duped." No wonder that in a 92 votes to zero decision the U.S. Senate told President Reagan last year that, if Japan still refused to open its market to more American goods and to engage in fair business competition, it would be necessary to take retaliatory actions.

Even the United States, the richest country in the world, finds the trade deficit insupportable. The developing countries in the Third World, including China, naturally find it still harder to support the increasingly huge trade deficits.

Over the past few years, your country has had a trade surplus with most trade partners. The situation has worsened. I wondered if an excessive trade surplus was absolutely favorable to your country. Sure enough, less than 1 year later, the foreign exchange value of the Japanese yen against the American dollar was forced to rise by 50 percent. Perhaps this was not what your country's industrial and commercial circles had expected. When I saw that the skyrocketing exchange value of the Japanese yen had relatively weakened the competitiveness of the Japanese goods, I thought: It is high time the Japanese friends conscientiously examined their trade policies and measures.

The current huge trade and investment imbalance among various countries in the world is seriously threatening the development of world economy, pushing it toward recession. It has touched off various trade barriers and the rise of new trade protectionism. As far as the developing countries and regions are concerned, trade protection probably has its rationality. With their poor economic powers, they have to properly protect the infant national industries and domestic markets. Some people in the rich countries are trying hard to advocate trade protectionism. In essence, this is harmful to others, as well as to themselves. It also violates the principle of fairplay which they have always propagated and believed in. Since trade imbalance, in which benefits excessively tilt in one direction, can no longer be practiced and since the new trade protectionism is also contrary to the progress of human civilization, I think the only positive solution is to establish a new, mutually beneficial trade and economic relationship. I believe that farsighted entrepreneurs in our time will be much cleverer than our forefathers. They will not only consider how to dominate the market by bringing their strong points into full play but also put a lot of effort into studying how to create and open up new markets.

With its strong economic power, Japan can play an important role in the implementation of China's policy of opening up to the outside world. Will it be unfavorable to Japan if China is prosperous and powerful? I do not think there is any ground for entertaining such a misgiving. An economically developed China will be one with a such greater purchasing power and a neighbor more favorable to the Japanese economy. Will China become Japan's competitor? Judging from China's practical conditions, with its vast territory, large population, and huge internal demand, China still lags far behind Japan either in advanced fields of science, technology, and skills or in trade and merchandise. Therefore, it is still too early for China to become Japan's competitor. Mr Bo Yibo told some Japanese friends that it would not be possible for China to become Japan's competitor in 50 years. In a modern and highly evolving society, it is quite natural to advance together in competition. The concept that "once the apprentice learns the trade, the master worker will die of hunger" is outworn and ridiculous.

Some Japanese friends have pointed out that, due to various [words indistinct] such as quality, packaging, and delivery date, it is difficult for Chinese export products to enter the Japanese market. [word indistinct] of this situation, I have a bold proposal: With the support of both governments, people in the financial and industrial circles of our two countries can jointly work out a package plan for long-term cooperation under which, with investments from your country, as well as ours, we cooperate in fully utilizing China's rich labor and natural resources with advanced techniques and technologies from your country or other countries in the world to process and manufacture what Mr (Hossei Utsui) describes as "commonly used and competitive commodities" for your market. In this way we can satisfy the demands of your market and people, as well as increase our country's foreign exchange earnings. Your country can use the profits to engage in expanded reproduction and China can also use the increased payment capabilities to purchase your country's manufactured goods, technology, and equipment. As a consequence, a situation characterized by a benign cycle in economic and trade exchanges will appear before us.

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CSO: 4006/134



## FOREIGN TRADE AND INVESTMENT

### BANK DIRECTOR ON SINO-JAPANESE TRADE

HK181347 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

[Excerpts of speech by Cui Yanxu (1508 1693 4872), director of the Bank of China and vice president of the China Society of International Finance, at the 2d Sino-Japanese Economic Seminar sponsored by RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "On Sino-Japanese Trade and Financial Problems"]

[Text] As we all know, China is a developing country which has been short of foreign exchange for a long time. China's relations with the international markets depend on China's ability to earn foreign exchange. China earns and also spends foreign exchange in her foreign trade, and the amount of foreign exchange she spends depends on the amount she earns. Our leader, Deng Xiaoping, said when he met a group of Japanese friends last year: "Only when a balance is maintained can Sino-Japanese trade be smoothly developed on a long-term basis," and "in international trade, one side may incur trade deficits for 1 or 2 years, but such trade relations will not be able to continue for a long time." I think that our Japanese friends can certainly understand the significance of these remarks.

The increasing trade deficit incurred by the Chinese side in Sino-Japanese trade has become an issue that has aroused more and more serious concern among people. The key to developing Sino-Japanese trade relations on a stable long-term basis is the substantial increase of imports from China by Japan. This would not only be favorable to the continuing development of trade between the two countries, but would also be favorable to the sustained and steady growth of both countries' economies.

The imbalance in Sino-Japanese trade is closely related to the economic structures and export structures of the two countries. Japan mainly exports manufactured goods and mechanical and electrical equipment to China, and such goods have a comparatively large additional value; while China mainly exports to Japan farm, sideline, and mineral products whose additional value is comparatively small. It is obvious that the contradiction cannot be solved in a short time. We do not require an absolute balance in Sino-Japanese trade and do not require that a balance be reached every year. However, through joint efforts by both sides, the contradiction should be mitigated, and it is possible to do so.

For China's part, we will adopt policies to develop export and will make efforts to improve the quality of export goods, adjust the product mix, and raise the competitiveness of our products. China has the resources and products which are needed by Japan, and this is the most important condition for expanding our exports. China's most apparent shortcoming is lack of knowledge about the international markets, including the Japanese market. The Chinese side will investigate more thoroughly and study the requirements of Japanese users and consumers in terms of quality, specifications, and packaging, will strengthen the development of new export goods so as to upgrade our export products and improve their quality, will improve the design and packing of these products, and will build up our transport capacity so as to satisfy the demands of the Japanese markets as soon as possible.

For Japan's part, it is our hope that you will also take measures to remove the man-made obstacles which affect the further development of our bilateral trade and lower the customs tariff, relax the quota control, and lift some unnecessary restrictions so as to create more favorable conditions for the entrance of Chinese goods into the Japanese market. At the same time, we also hope that you will help China expand her export capacity through increasing direct investment and technology transfer.

We are glad to see that both countries' governments and leaders have paid serious attention to the issue of trade imbalance. The two governments and the non-governmental quarters are making joint efforts on the principle of equality and mutual benefit and have taken a positive attitude on seeking ways and means to solve this issue. Prime Minister Nakasone has indicated on many occasions that he will personally look after the settlement of the problems concerning the imbalance in Sino-Japanese trade. We place high value on such a positive attitude for expanding Sino-Japanese trade. At the same time, we also hope that the problems will be solved as soon as possible.

When reviewing the development of trade and economic relations between China and Japan, people naturally think of the important role of friendly cooperation between the two countries' banking industries, which has definitely promoted the two countries' economic, trade, and technological cooperation.

In recent years, China and Japan have set up more and more joint ventures in the financial field, and they are actively expanding their business. The Bank of China, together with some other departments, has established a number of financial institutions on the basis of joint venture with some Japanese banks, which are located on the Chinese mainland or Hong Kong.

the future prospects of Sino-Japanese financial cooperation are inspiring, and there is a great potential to tap in our future cooperation. For example, both Chinese and Japanese banks are facing many new tasks in the promotion of present and long-term Sino-Japanese trade. In order to solve the issue of trade imbalance between the two countries, we are willing to join hands with our friends in Japanese banking circles, as well as in Japanese industrial and business circles, in studying ways to expand China's exports. It should be realized that an increase in China's export capacity would directly raise China's payment ability and would thus create favorable conditions for China to import more Japanese goods. This is in the interest of both countries.

FOREIGN TRADE AND INVESTMENT

OFFICIAL DISCUSSES BENEFITS FOR SERVICE TRADE

HK250245 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 25 Nov 86 p 3

[By Olivia Sin, "Recently in Beijing"]

[Text] Hotels and other service industries will not enjoy the same benefits as manufacturers under Beijing's new incentive package, says a senior Chinese foreign trade official, Chu Baotai. This is despite a strong request from hotel operators that their investment in China should receive the same status as that of export-oriented enterprises because both generate foreign exchange earnings.

Mr Chu, deputy director of foreign investment administration in the Ministry of Foreign Economic Relations and Trade (MOFERT), said that in a bid to attract high-technology and export-oriented industries, China had offered more generous terms under the new package.

Under the new rules enforced last month, exporters will have their profit tax halved, receive priority in using infrastructural facilities, and gain access to the Bank of China's credit facilities if they achieve a surplus in their foreign exchange accounts. However, the hotel and other service industries will not be accorded such benefits, although they will be given more autonomy in running their enterprises. They can also appeal to raise their charges.

Some hotel operators argue that they should be given similar treatment as the export-oriented firms because their services also help to generate hard currency.

The general manager of Swire China, Howard Young, stressed at a recent seminar in Beijing that manufacturers were not the only foreign exchange earners; the service sector also had a role to play.

In an interview with the SOUTH CHINA MORNING POST, Mr Chu admitted that the lack of high-technology and export-oriented foreign investment was due to inadequate incentives.

According to a study by MOFERT, half of the 2,300 joint ventures formed in 1979 and last year were property projects, including hotels and

office/apartment towers. Only a small percentage was manufacturing industries and high-technology projects.

"It has always been our country's policy to attract foreign investment which will raise our technical standard and boost our exports," said Mr Chu. "But we have not given enough incentives to high-technology and exporting industries. In fact, all sectors are given similar tax benefits."

For instance, all foreign investors were liable to pay a flat 15 percent profit tax in the four special economic zones, irrespective of the nature of their investment, he said.

Although the customs department had imposed a higher tax on imported materials for hotel projects since last year, the measure had not been effective in deterring property investment. More discriminatory measures were spelled out in the October package, by which China hopes to attract investment more in line with its policy aims.

Mr Chu is optimistic that more foreign funds will be channelled into the country as it improves its balance of payments position and relaxes credit controls.

China reported a 20 percent drop in foreign investment in the first half of this year. But Mr Chu said the declining trend had eased since August. Mr Chu said regulations describing how measures in the new package are to be implemented would be announced within the next few months.

However, those expecting a clearer definition of what is meant by high-technology may be disappointed. Mr Chu said this had already been defined in the October provisions.

High-technology enterprises were those "engaged in developing new products, upgrading the standard of existing products to increase the ability to earn foreign exchange, or engaged in import substitution."

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

INDUSTRIAL TECHNOLOGY EXPORT ENCOURAGED

OW200551 Beijing Domestic Service in Mandarin 0900 17 Nov 86

[Text] According to JINGJI CANKAO [ECONOMIC REFERENCE] report, the State Council recently has given written instructions about a report on technology exports, submitted by the Ministry of Foreign Economic Relations and Trade and the State Scientific and Technological Commission.

In its instructions, the State Council called on the departments concerned to take necessary measures to encourage technology exports after improving overall management and harmonizing relations between various quarters.

The Ministry of Foreign Economic Relations and Trade and the State Scientific and Technological Commission pointed out in the report: The stress of our technology exports should be put on industrial technology. We have many technologies of this category, and the time for exporting them is ripe. Moreover, their export will promote that of more industrial products. We should encourage the export of these technologies as long as it does not hurt our national security and major economic and political interests, and does not adversely affect our export commodity market. However, we should assume a prudent attitude to the export of laboratory techniques, new scientific research findings, and new inventions. We should consider the confidentiality of the new techniques, while taking into account the possibility of domestic development. In principle, we should first develop technology at home, if we can develop it there, turn it into industrial products for export, and protect its confidentiality. In order to protect export technologies, we should apply for patents abroad in good time for those technologies qualified for patenting. We should sign contracts as the primary way to protect our exclusive technologies and technological secrets.

On the procedures for examining and approving technology export requests, the report proposed that they be handled by the departments in charge at various levels, and submitted to higher authority through the command channel.

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CSO: 4006/124

FOREIGN TRADE AND INVESTMENT

PRC TO EXPORT 10 MILLION TONS OF COAL IN 1986

OW251128 Beijing XINHUA in English 1124 GMT 25 Nov 86

[Text] Beijing, 25 November (XINHUA)--China expects to export 10 million tons of coal by the end of this year, Chen Dun, coal industry vice-minister, said today.

According to Chen, the country has already exported 8.22 million tons this year.

Coal exports are "very small compared to China's annual coal output volume of more than 800 million," he said. "But they bring in foreign exchange that we can use for advanced technology and equipment that we badly need."

For years, said Chen, growing domestic demand has limited China's coal exports. But now, he said, rapid production development is making increasing amounts of coal available for sale overseas.

Government officials say China exported 7.5 million tons of coal in 1985 to Japan, Korea, Hong Kong, the Philippines, and Western Europe. And they plan to increase the exports to 30 million tons in 1990.

Chen said the coal ministry will switch its focus in 1987 from increasing production volume to increasing coal quality.

"We've started to build facilities specifically geared to producing coal for export," he said.

At the same time, the government has been constructing new coal wharves designed to facilitate shipping abroad. Already operating are the wharves at Shijiu, with berths for 100,000 ton class ships, and Qinhuangdao, with berths for 50,000 ton class vessels.

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

BRIEFS

BETTER INVESTMENT ENVIRONMENT--Two years ago, the party Central Committee and the State Council decided to further open the 14 coastal cities and to build development zones. During the past two years, many things have been done in those development zones, and we have made some progress in attracting foreign business investment. However, we see that comrades in some localities consider creating a favorable environment for investment to be merely providing good working conditions and living facilities. They do not attach due importance to raising management levels and work efficiency or to perfecting various laws and regulations. The Tianjin Development Zone has weighed the advantages and disadvantages of working to attract foreign capital to our country's development zones, and has taken concrete steps to adopt the good things and eliminate the undesirable things. The Tianjin Development Zone has achieved good results. Various localities can learn from the experience of the Tianjin Development Zone to create through solid, practical work, a truly favorable environment for foreign investors in order to speed up the pace of construction of our country's development zones. [Station commentary: "It Is Necessary To Do Some Practical Things To Create A Good Investment Environment For Foreign Investors"] [Text] [Beijing Domestic Service in Mandarin 1200 GMT 10 Nov 86 OW] /12913

TIANJIN EXPORT ACHIEVEMENTS--As of the end of September, Tianjin Municipality exported commodities worth \$920 million and scored a 12.8 percent increase over the figure of the corresponding 1985 period. The six company branches in the municipality in charge of exporting commodities of handcraft articles, foodstuffs, garments, indigenous products, metals, minerals, and the chemical industry, have fulfilled their annual export plans by more than 90 percent. The variety of export commodities has also increased day by day. During the January-September period this year, the supply of export goods surpassed the figure for the corresponding 1985 period by 29.3 percent. [Excerpt] [Tianjin City Service in Mandarin 2300 GMT 9 Oct 86 SK] /12913

TEXTILE EXPORTS--Shenzhen, 20 Nov (XINHUA)--Addressing a meeting of the board of directors of the Hualian Textile Limited Company of China in Shenzhen a few days ago, Minister of Textile Industry Wu Wenying said: Regarding China's textile exports, we must change the traditional concept of "winning victory with quality," upgrade quality, and increase the proportion of highly finished export products. Exports of Chinese textile products have been increasing rapidly in the past few years. In 1985 China's textile exports, including silk, satin, and garments, were worth US\$6.4 billion. The value is expected

to reach US\$7 billion this year. Wu Wenying pointed out: The textile industry should try to effect "two changes" as soon as possible. That is, it should change from mainly exporting primary products to mainly exporting finished products and from mainly exporting roughly processed products to mainly exporting finely processed products. During the Seventh 5-Year Plan period the state will concentrate on building 12 textile products exporting zones in Guangzhou, Foshan, Dalian, Shanghai, Qingdao, Tianjin, Suzhou, Wuxi, Changzhou, Nantong, Hangzhou, and Beijing. It will also form export groups through lateral association in order to allow collectives to play their role in handling end products and increasing exports of such products as fashionable dresses, woolen garments, sportswear, and textile decorations. [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1251 GMT 20 Nov 86 OW] /12913

TECHNOLOGY EXPORTS TO BE BOOSTED--Beijing, 18 November (XINHUA)--The Ministry of Foreign Economic Relations and Trade and the State Science and Technology Commission have decided to boost China's exports of technology, focusing on items connected with industry, officials said. Industrial technology exports should be encouraged since China has many such items which can be exported and this can promote the export of industrial products, said officials from the Ministry of Foreign Economic Relations and Trade. However, technology exports should not infringe upon the country's security or its vital economic and political interests, the officials added. They said a prudent attitude should be taken when laboratory technology, new scientific research achievements and new inventions are exported. [Text] [Beijing XINHUA in English 0838 GMT 18 Nov 86 OW] /12913

PRC BORROWS \$3 BILLION--Beijing, 20 November (XINHUA)--China borrowed intermediate and long-term loans worth US\$3 billion in the first nine months of this year, according to today's overseas edition of the PEOPLE'S DAILY. "Total loans from foreign countries are expected to reach US\$5 billion by the end of this year, doubling the figure for 1985," according to the State Planning Commission. "These loans, together with funds raised at home, have been used in the construction of China's key energy and transportation and technology upgrading projects over the past few years," the paper said. Designated as key projects are some new railways, ports, the Shanghai Baoshan Iron and Steel Complex and the Daqing Petrochemical Works. Seven coal mines built with loans from Japan have already been put into operation, according to the paper. China has concluded loan agreements with 14 countries including Kuwait, Italy, Britain, France, the Federal Republic of Germany and Denmark. With loans from these countries, China has imported equipment to build, among other projects, a power plant, a cement factory, an airport and a dairy. [Text] [Beijing XINHUA in English 1032 GMT 20 Nov 86 OW] /12913

JOINT VENTURES RECEIVE CERTIFICATES--Beijing, 20 November (XINHUA)--Twenty four Sino-foreign joint ventures in Beijing today received certificates acknowledging them being export-oriented or technically advanced. Such certificates were offered at a meeting by Chen Xitong and Zhang Jianmin, mayor and vice-mayor of Beijing. There are now 172 Sino-foreign joint ventures in Beijing, with funds totaling US\$2.05 billion, of which 950 million come from foreign entrepreneurs. Zhang Ming, vice-chairman of the Municipal Commission for Foreign Economic Relations and Trade, said at the meeting that the acknowledgement was made according to the standards set by the state council's



22-article provisions to encourage foreign investment published last month. He said the 24 enterprises will enjoy preferential treatment stipulated in the provisions. But, he warned, these enterprises will still be examined step by step. If they are found below the standards of being export-oriented or technically advanced, "privileges will be taken away, and preferential funds they have enjoyed will be cancelled," Zhang said. [Text] [Beijing XINHUA in English 1640 GMT 20 Nov 86 OW] /12913

CONTROL OF MACHINERY IMPORTS URGED--Beijing, 22 November (XINHUA)--Administrative departments must take measures to strictly control imports of machinery and electrical apparatus, a senior Chinese official said here today. Zhu Rongji, vice-minister of the State Economic Commission, said in an interview with XINHUA that the import of machinery and electrical apparatus came to US\$17.8 billion last year, accounting for 42 percent of the nation's total imports. He added that the volume of such imports reached US\$8.8 billion in the first half of this year, bringing the proportion even higher. As a result of the unchecked import and unnecessary duplication of imports for some machinery, their production capacity has surpassed the needs of the market. Moreover, the supply of raw materials which is already short has become even worse, and products are being overstocked. "We should mainly import advanced technology and some key equipment that is badly needed," he said, adding that "imports will be banned for all those types of machinery that we can make ourselves." [Text] [Beijing XINHUA in English 0859 GMT 22 Nov 86 OW] /12913

SOVIETS WELCOME XINJIANG PRODUCTS--China's Xinjiang Uygur Autonomous Region Trading Organization and the Soviet Union's V/O Dalintorg [All Union Far East Trading Organization] recently held their first trade exhibition in Alma Ata, the capital of Soviet Kazakhstan. The Soviet side accepted over 90 percent of Xinjiang's exhibited goods that included household chemical products, household electrical appliances, carpets, handicrafts, textile goods, various clothing and footwear items, livestock products, foodstuffs, light industrial and electronic products. Both sides jointly signed contracts to import commodities totalling a value of 4.8 million Swiss francs [approximately \$2.8 million]. [Text] [Beijing ZHONGGUO SHANGYE BAO in Chinese 8 Nov 86 p 1]

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## SPECIAL ECONOMIC ZONES

### STRENGTHENING CREDIT MANAGEMENT IN SHENZHEN

Beijing NONGCUN JINRONG [RURAL FINANCE] in Chinese No 6, 16 Mar 86 pp 25-26

[Article by An Yangdong [1344 0111 2639]: "Problems in Credit Management in Shenzhen"]

[Text] Li Hao [2621 3493], Shenzhen's new mayor, says, "To improve its standard of management, Shenzhen must pay full attention to reviewing experience, go in for in-depth reform, and further straighten out the relations with the outside and the interior, all the while maintaining a higher rate of growth than the mainland. It must strengthen management and improve efficiency."

- the editor

The Agricultural Bank has played a vital role in supporting the development of Shenzhen, China's first special economic zone [SEZ]. In 1979, when the bank was reestablished, the predecessor of its Shenzhen branch--the Poan County branch--had only 18.2 million yuan in credit. In 1982, lending by the Shenzhen branch burst through the 100 million yuan barrier. Subsequently credit expanded rapidly, reaching 1.32 billion yuan in 1984. By the end of October, 1985, credit was still a high 1.21 billion yuan. That at a time when the scale of lending was being curbed. In accordance with the spirit put forward by the Shenzhen municipal government--transform the countryside into cities, peasants into workers, the focus of lending has been shifting from agriculture to industry and commerce. In 1979, industrial and commercial credit reached 12.23 million yuan, or 67.2 percent of total credit. In late 1984, industrial and commercial credit totaled 960 million yuan, a 77-fold increase over 1979, or 73.3 percent of total credit for the year. In addition, a considerable part of agricultural credit went to finance industrial and commercial projects operated by agriculture. As of late October last year, industrial and commercial credit still amounted to 890 million yuan, 74.2 percent of total credit. Following the infusion of credit funds, great progress has been made in the development of the SEZ. According to incomplete data, there were 1,902 registered commercial enterprises in Shenzhen in 1983, rising to 4,070 in 1984 and by another 1,567 in the first half of 1985. Government revenues also went up year after year, climbing almost 300 percent in 1984 compared with 1981.

Shenzhen has been developed under the guidance of the central government's SEZ policies. Commercial credit has special significance for the zone's ability to make full use of its geographical advantages, develop trade, industry, and agriculture comprehensively, give pride of place to trade, import foreign capital and technology, and cooperate with the interior. But a number of problems remain in Shenzhen's rural commercial credit work:

1. There is an absence of systematic research on commercial credit work in the SEZ and specific policy guidance from the higher authorities. When they carry out credit management, the departments concerned rarely consider the SEZ's special conditions. They do not coordinate their actions with one another at different levels and are long on inspection and short on guidance. Credit personnel, exhausted from dealing with them, have little time for day-to-day work. Since departments offer little in the way of specific policy guidance, credit personnel are at a loss as to what to do in their work; they have no policy on which to base their words and actions.

2. Credit personnel are small in number and poor in quality. The standard of credit management is not compatible with Shenzhen's level of economic development. At some banks and other institutions, credit personnel make up less than 5 percent of total personnel. The number of commercial credit personnel is even more meager and their professional quality is highly uneven. Most of them are new to the job. Others have switched to commercial credit from agricultural credit. Add the large number of new problems and new demands of commercial credit in the SEZ, and you have a group of comrades, old and new, who feel they are not up to their task.

3. The credit business in the SEZ is highly competitive and the Agriculture Bank is not as well funded as others. Last year the Shenzhen Agricultural Bank aimed to reduce bad loans and lending by 410 million and 260 million yuan, respectively, and increase deposits by 150 million yuan. In the first half of 1985, it managed to reduce lending by only 56.78 million yuan, at the same time losing many customers and large enterprise deposits. By late October 1985, enterprise deposits had fallen by 70 million yuan. Moreover, deposits transferred from credit cooperatives dropped 120 million yuan. Not only was the target of cutting bad loans unfulfilled, but the gap between what it gave out in loans and what it absorbed in deposits actually widened by over 60 million yuan. It also ran up 100 million yuan of debts to other banks. Nor did the issue of bonds go smoothly. With these constraints on its credit fund sources, the bank had little room to maneuver in developing its credit business.

4. Among products made by enterprises that have borrowed from the bank, an astonishingly significant part is of dubious value, so that these enterprises have no materials to act as security for commercial circulating loans. According to a survey by the Shenzhen municipality on 13 commercial enterprises, a mere 8.8 percent of their goods in stock sold well, 26.9 percent fared indifferently, and as much as 65.3 percent were duds. Many questions remain about the process in which suspect merchandise is purchased. Sometimes cases are intertwined. The Hainandao auto import case, for instance, has ramifications for Shenzhen: the Hainandao Petrochemical Corporation alone owes the Agricultural Bank 44 million yuan. But the cars

cannot be used to guarantee loans until after the auto case is resolved. There are other unsecured loans, resulting in questionable funds. The sales department in Nantou district, which is part of the Shenzhen branch of the Agricultural Bank, has done a study on 10 commercial enterprises that had borrowed a total of 56.31 million yuan in commercial circulating loans as of late June last year, including 39.76 million from the Agricultural Bank. In the same period, they had only 31.47 million yuan worth of goods and materials as collateral for their loans. In other words, 44 percent of their loans were unsecured.

5. The exact policy limits of relevant commercial credit work in the SEZ needs to be further clarified. Take the enterprises' internal funds, for instance. Many Shenzhen commercial enterprises borrow from different sources. It is hard to determine the amount of their internal funds, and the number is simply too unreliable. Another example involves loans for capital construction and fixed assets. About half of the Shenzhen branch's lending is used as investments in capital construction and fixed assets. Yet if we examine the way in which the funds are used, a considerable part of these investments differ in essence from development projects. In a process comparable to a factory manufacturing industrial products and then sells them, the investment is recouped and profits generated within a short period of time. This kind of loan is similar to credit financing production costs. On the other hand, if we look at the nature of the project, it no doubt belongs to capital construction. In other words, there is a split between its fund nature and project nature. If the project enjoys good sales, the fund turnover will also be rapid, whereas the funds for purchasing commercial real estate and fixed assets can be repaid several times as the value of fixed assets gradually changes. In these instances, the loans are essentially like loans for fixed assets.

There is also confusion in the SEZ about the uses of different kinds of loans. The scope, direction, and contents of loans for fixed assets investments and development are ill-defined and the sources of funds are uncertain. Real estate loans and loans for infrastructural projects all come from commercial loans and are listed under the category of other state-owned commercial projects. The disadvantage is that category and contents are not consistent with each other and figures are muddled.

To support the development of the zone even more effectively and make better use of the Agricultural Bank, we must strengthen credit management, raise funds, manage credit funds properly, use them to good effect, and increase the economic benefits of loans.

1. Connect the management and guidance of credit work at various levels so that the guidance of credit policies, the management of credit funds, and the inspection of their use become a coherent whole. On that basis, the departments in charge, taking into account the SEZ's special circumstances, should consider and formulate a set of credit policies, particularly the policy limits of commercial credit, suited to the zone within the framework of national policy consistency. Everything should be done to ready ourselves for problems.

2. Classify use categories properly in accordance with the nature of the use of funds. Consideration may be given to incorporating loans for infrastructural projects into SEZ development loans for independent management and incorporating loans for commercial real estate, which are a form of production costs, into SEZ fixed assets loans, as distinct from regular fixed assets loans and commercial circulating loans. Loans for purchasing commercial real estate should be handled in the same way as fixed assets loans.

3. The forms of credit must be further diversified and made more flexible. Lending on credit should continue to be available to single, permanent enterprises which good credit, a long-term credit relationship, and a substantial portion of verifiable internal funds. Lending to other enterprises should essentially take the form of secured or guaranteed loans. Other forms that may be used are loans secured with cash, partly mortgaged loans, and . Legal devices such as the contract and notarization should be fully used to ensure the security of credit funds.

4. Functional agencies are too weak. That must be changed. Learning from the organizational setup of other banks and foreign banks and using them as our reference, we should beef up credit departments and increase their responsibilities to meet the demand of developing a financial sector in the SEZ.

6. [as published] Step up the training of the contingent of credit personnel and improve their quality.

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LABOR AND WAGES

JINGJI RIBAO NOTES TECHNICIAN DISTRIBUTION CENTER

OW111146 Beijing XINHUA in English 1138 GMT 11 Nov 86

[Text] Beijing, 11 Nov (XINHUA)--Beijing has set up its first consultation center to assist enterprises in redistributing technicians, ECONOMIC DAILY reported today.

According to the report, since the center was set up last July, it has received over 600 technicians from 90 enterprises here in the capital.

The center has filed materials on over 100 technicians who want to change jobs, and has received requests from enterprises for technicians specializing in more than 40 types of production work, the report said.

"Currently, technicians do not choose their jobs but are assigned a position, and many of them do not get jobs in their speciality," the report noted, adding that because of enterprise diversification in recent years, some need additional technicians to develop new products while others are overstaffed.

"The center has been set up to solve personnel problems, and this October, 14 technicians were temporarily exchanged among five enterprises, with all sides expressing satisfaction with the center's services," the report added.

This month, the center will hold an open conference, where technicians wanting to change jobs can talk directly to interested enterprises, and presently the center offers free consultations, the daily reported.

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LABOR AND WAGES

TAIYUAN FACTORIES ORGANIZED TO HIRE DISABLED

OWO20958 Beijing XINHUA in English 0647 GMT 2 Nov 86

[Text] Taiyuan, 2 November (XINHUA)--Nearly all the disabled who can still work have been employed in suitable jobs in Taiyuan, capital of north China's Shanxi Province.

According to an official from the local Civil Affairs Department, "the city has set up 102 welfare factories and workshops with a total employment of 5,421."

Last year the factories' total industrial output value amounted to 25 million yuan (6.7 million U.S. dollars), 88 percent higher than that of 1983.

"A welfare industrial production network is taking shape in the city," he said, "and their products supply dozens of areas including machine-building, light industry, textiles, printing, electronics, and arts and crafts."

"Some products have been awarded provincial and municipal quality awards and some have been exported," the official noted.

The welfare factories are run by local governments as well as by enterprises, neighborhood committees and individuals.

The government encourages the departments of civil affairs, taxation, goods and materials, and banks to provide preferential treatment to these factories.

Newly-established welfare factories will not turn over their profits to the state for future development during their initial period, a government official said.

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LABOR AND WAGES

BRIEFS

WORKERS UNDER 35--Beijing, 8 November (XINHUA)--China now has 120 million employees and 70 percent of them are under 35, according to the PEOPLE'S DAILY today. A national survey, sponsored by the All-China Federation of Trade Unions, shows that 98 percent of the workers were employed after the People's Republic of China was founded in 1949, when China had 8 million workers. The number of female employees has increased to 43 million, one-third of the total, from 610,000 in 1949, the paper added. Workers in state-run enterprises and institutions make up 73 percent of the total number and those in collective-owned enterprises make up 26 percent of the total, the survey reveals. Ideological and attitudinal data, broken down by age group, was also included in the 3-month survey starting last March, according to the paper. [Text] [Beijing XINHUA in English 1213 GMT 8 Nov 86 OW] /12232

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